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The Health of RI's Hospitals (2007)

~a financial analysis~



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Report is available online at www.health.ri.gov; search "Health Topics/Hospitals"

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I: EXECUTIVE SUMMARY

In 2007, the financial 'health' of RI's hospitals improved from increased profitability, higher debt capacity, and strengthened liquidity. However, given the recent economic recession, increased unemployment, market losses, and tightened Medicaid (RIte Care) eligibility and reimbursement, it is unlikely this hospital financial improvement will continue into 2008.

Rhode Island's 13 private non-profit hospitals are a \$2.9 billion dollar industry comprising 5.5% of the Gross State Product (in 2007¹). The hospitals' payroll and benefits approach \$1.7 billion, and they invest almost \$170 million annually in new capital (buildings and equipment). Because of the hospitals' importance to healthcare delivery, their impact on the economy, and the large public investment they represent, there is interest and utility in monitoring their performance.

This 9th edition report uses the RI Department of Health's <u>Hospital Financial Dataset (2007)</u>² to evaluate the finances of RI hospitals. It compares their performance to other hospitals in the Northeast (NE), and to a benchmark of the best performing quartile (i.e., the top 25%) of hospitals in the country. The individual hospitals are also evaluated against each other based on their performance on 12 measures over four years. This enables the DOH to monitor the industry for financial problems, and to inform healthcare policy.

In 2006 (the most recent year for comparable data), Rl's hospitals' financial condition was 'guarded.' **Compared to their** <u>regional counterparts</u>, in 2006:

- RI hospitals were less profitable (2.1% vs. 3.0% total margins),
- their operations were weaker (1.0% vs. 1.8% operating margins), and
- their net worth(s) grew slower (9.0% vs. 9.3% equity growth rates).
- > However, RI hospitals were less financially leveraged (51% vs. 65% F.A. financing),
- with lower capital-related fixed costs (4.6% vs. 5.6% capital expenses), but
- their facilities were older (13 vs. 11 years age of plant), and they had

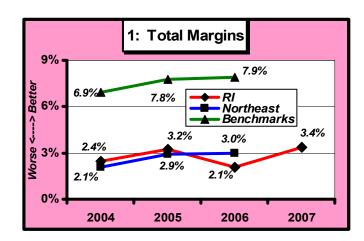
- > somewhat less capacity to increase borrowings (3.4 vs. 3.5 debt service coverage).
- RI Hospitals, had slightly weaker liquidity (1.39 vs. 1.53 current ratios),
- marginally slower collections of their receivables (49 vs. 48 days in accounts receivable), but
- stronger cash positions (29 vs. 27 days cash on hand).

In 2007, RI hospitals' financial 'health' improved, as:

- ➤ Overall profitability increased (2.1% to 3.4%), even though
- > operating-margins fell (1.0% to 0.7%), but
- > growth in net worth accelerated (9.0% to 14.7%).
- Financial leverage declined (51% to 49%),
- capital expenses fell (4.6% to 4.5%), while
- debt capacity steadied (3.4 to 3.4).
- ➤ Liquidity strengthened (1.39 to 1.42),
- > as did cash balances (29 to 30 days), and
- collections improved (49 to 47 days).

Profitability measures examine the generation of net income and the creation of wealth. Profitability is critical to hospitals' long-term survival because it provides the means to replace aging plants and to invest in new technologies.

Statewide profit margins exceeded the regional values through 2005, but fell short of that comparable in 2006 (Chart 1). In 2007, statewide profitability improved 62% (from 2.1% to 3.4%). That year, five hospitals lost money versus six hospitals in 2006.



Growth rates in hospital net worth(s) also consistently beat the N.E values through 2006, and

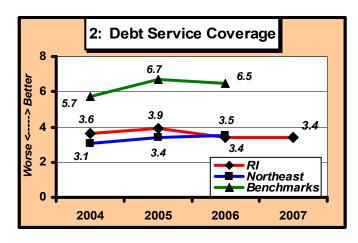
there was a further +14.7% increase in RI equity in 2007, from \$1.78 to \$2.05 billion.

Individually, Newport (#1), Bradley (#2), and RIH (#3) had the strongest profitability indices in the state, while Landmark (#13), Westerly (#12), and South County (#11) had the weakest indices, respectively.

Capital Structure measures define the importance of debt in financing the hospital's fixed assets, the cost of that debt, and the ability to fund additional borrowings.

Statewide financial leverage steadily improved (i.e., declined) from 2004 to 2006, and remained favorably below the regional values each year. In 2007, statewide leverage decreased a further 8% (from 54% to 49%).

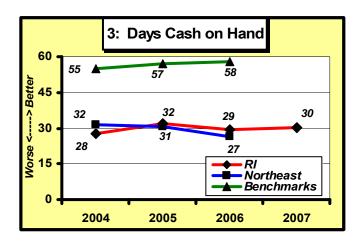
RI hospitals carried low debt balances, but their capacity for additional borrowings was only average. The ability to service the debt obligation, the *Debt Service Coverage*, beat the regional values through 2005, but then declined due to weakening profitability in 2006 (Chart 2). RI's 2007 value remained flat.



Bradley (#1), Miriam (#2), and Women & Infants (#3) had the strongest capital structure indices in the state, while South County (#13), Landmark (#12), and Westerly (#11) had the weakest indices, respectively.

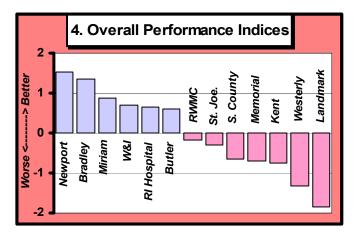
Liquidity measures assess the ability of a hospital to pay its short-term obligations. Deterioration in liquidity usually indicates cash-flow problems when an organization experiences financial difficulty.

RI's current accounts were weaker than their Northeast peers, but their cash balances were stronger (Chart 3). Also, RI's collection of receivables was consistent with the regional experience.



South County (#1), Butler (#2), and Newport (#3) had the strongest liquidity indices in the state, while Memorial (#13), Kent (#12), and Westerly (#11) had the weakest indices, respectively.

To rank the overall financial performance of each hospital in the state, the three individual indices were aggregated into a composite index (Chart 4).



Newport (#1), Bradley (#2), and Miriam (#3) were the strongest overall financial performers in the state, while Landmark (#13), Westerly (#12), and Kent (#11) were the weakest performers, respectively. All of the top six hospitals were Lifespan or Care New England network hospitals, and, with the exception of Kent, all six of the seven bottom ranked hospitals were independent facilities.

II: INTRODUCTION

The Health of Rhode Island's Hospitals (2007) is the 9th edition of this financial analysis of the state's hospital industry. It compares RI hospitals' performance over time (2004-2007), to regional (Northeastern) values, and to the best performing quartile of hospitals in the country (i.e., the top 25% of hospitals nationally).

In addition, the report develops indices to rank the individual hospitals on three aspects of financial performance (i.e., profitability, capital structure, and liquidity). Lastly, a composite index is presented to rank the overall financial performance of each hospital.

The following observations should improve this report's utility:

- ➤ The analysis examines financial operations only. It does not include information on clinical measures or patient satisfaction, both of which are additional aspects of overall performance. See the DOH's website (www.health.ri.gov) for publications on these and other hospital topics.
- Statewide comparisons express generalities of overall performance. With every conclusion, however, there may be individual hospital exceptions. For example, RI's 2006 Total Margin was lower than the regional value, but Newport and RI Hospital each performed better than this comparable.
- From The primary data sources are the audited financial statements for Rl's 13 community hospitals as compiled in the Hospital Financial Dataset (2007), and excerpted in Appendix A, Tables A1-A3. Comparable regional values and the national benchmarks through 2006 (the most recent year for these data), came from the Almanac of Hospital Financial & Operating Indicators.³
- The benchmarks are the best performing quartile of hospitals in the U.S. (i.e., the national 75th percentile values). For those measures in which lower values are pre-

ferred (e.g., Fixed Asset Financing, Capital Expenses, Age of Plant, Days in Accounts Receivable, and Average Payment Period), the benchmarks are the national 25th percentile values.

- ➤ The Northeast (regional) comparables are the median (50th percentile) values of the hospitals in those nine states.
- The individual hospital analyses measure each hospital's performance against all the hospitals in the state, not to any regional or national peer groups. Favorable trends are always for higher values on the indices. A hospital's index value is how many standard deviations that hospital is from the mean (i.e., the average) for all RI hospitals.
- ➤ The ranking of hospitals uses a similar methodology employed in four previous reports (Appendix A), and a rationale is provided for each methodological decision. In addition, four years' data are included in the analysis to remove any vagaries associated with evaluating only a single year's performance.
- For each measure, a weighted average⁴ of the four years' values is provided to gauge individual hospital performance. Again, this is in keeping with examining multi-year rather than single year's experience.
- ➤ In the body of this repot (with the exception of the Executive Summary), the following financial nomenclature is used: 'k' represents thousands (\$000s), and 'm' represents millions (\$000,000s).
- Whenever the vernacular 'best' or 'worst,' 'strongest' or 'weakest,' or 'superior' or 'inferior' is used, it refers to financial performance only, and not to the quality of care provided at any particular hospital.

III: PROFITABILITY

Profitability measures examine the generation of net income and net worth. Profitability is key to a hospital's long-term survival. Hospitals that are consistently unprofitable will have insufficient funds to meet current requirements, to replace aging plants or to invest in new technologies. Four profitability measures are presented: Total Margins, Return on Assets, Changes in Net Worth, and Operating Margins.

A. Total Margins are the definitive profit percentages from hospital operations and nonoperations alike, and shows how much hospitals make from what they take in (Table 1). The Total Margin reflects all realized gains and losses for the year, and is a primary measure of profitability. All organizations, regardless of tax-status, need to generate net income in order to remain viable, so higher values are preferred

1: Total Margins¹							
	2004	2005	2006	2007	Wght. Avg. ²		
Bradley	6.8%	6.3%	0.9%	9.0%	5.8%		
Butler	-0.2%	4.5%	-0.2%	3.3%	2.1%		
Kent	0.1%	-0.1%	0.0%	-2.2%	-0.9%		
Landmark	0.7%	-0.9%	-2.3%	-6.0%	-3.2%		
Memorial	0.9%	0.3%	1.8%	0.3%	0.8%		
Miriam	3.9%	4.9%	2.2%	5.1%	4.1%		
Newport	12.2%	12.0%	11.9%	19.5%	15.0%		
RI Hospital	2.6%	4.0%	3.9%	5.8%	4.5%		
Roger Williams	0.3%	1.5%	-1.0%	1.1%	0.5%		
South County	-2.3%	1.2%	-6.2%	-4.3%	-3.6%		
St. Joseph	0.7%	0.7%	-0.3%	-1.3%	-0.4%		
Westerly	-2.3%	-3.4%	-2.1%	-2.3%	-2.5%		
W&I	2.6%	2.7%	2.1%	4.4%	3.2%		
Rhode Island	2.4%	3.2%	2.1%	3.4%	2.9%		
Northeast	2.1%	2.9%	3.0%				
Benchmarks ³	6.9%	7.8%	7.9%				

¹ Bottom-line profitability (from all sources and activities); (net income / total revenue); higher values are preferred

Statewide profitability fluctuated absolutely and relatively from 2004 to 2006. In 2006, the state's margin was 31% below the northeast value (2.1% vs. 3.0%), and it fell far short of the

best performing hospitals in the country (2.1% vs. 7.9%). Newport (11.9%) was the only hospital in the benchmark group in 2006.

In 2007, statewide profitability improved 62% (from 2.1% to 3.4%). That year, five hospitals lost money versus six hospitals in 2006. In 2007, eight hospitals improved their margins and five hospitals saw their margins fall.

B. Return on Assets measures the amount of net income earned per dollar of total assets, and shows how much hospitals make from what they've got (Table 2). Instead of expressing profits as a percentage of revenue (i.e., total margin), it equates those monies to the actual investment required to generate the income. Ideally, hospitals should produce returns sufficient for debt retirement, working capital, and investment in fixed assets, so higher values on this measure are preferred.

2: Return on Assets¹							
	2004	2005	2006	2007	Wght. Avg. ²		
Bradley	5.9%	5.3%	0.7%	5.5%	4.1%		
Butler	-0.2%	3.9%	-0.2%	3.1%	1.9%		
Kent	0.1%	-0.1%	-0.1%	-2.9%	-1.2%		
Landmark	1.5%	-2.2%	-6.1%	-18.4%	-9.5%		
Memorial	1.1%	0.4%	2.3%	0.3%	1.0%		
Miriam	4.1%	4.9%	2.0%	4.6%	3.8%		
Newport	4.2%	4.1%	3.9%	5.7%	4.7%		
RI Hospital	2.1%	3.2%	3.2%	4.4%	3.6%		
Roger Williams	0.5%	2.3%	-1.6%	1.6%	0.7%		
South County	-1.7%	0.9%	-4.0%	-2.7%	-2.3%		
St. Joseph	1.1%	1.0%	-0.5%	-2.1%	-0.7%		
Westerly	-1.6%	-2.4%	-1.7%	-1.9%	-1.9%		
W&I	2.9%	2.9%	2.2%	4.3%	3.2%		
Rhode Island	2.2%	2.9%	1.8%	2.8%	2.5%		
Northeast ³	2.3%	2.7%	3.5%				
Benchmarks ^{3,4}	6.7%	8.8%	9.4%				

¹ Net income as a percentage of the assets used to generate that income; (net income / total assets); higher values are preferred

Rl's performance on this measure was strong into 2005, and then its value declined from 2.9% to 1.8%, below the northeast median of

Weighted averages are: 10% of the 2004 value, 20% of the 2005 value, 30% of the 2006 value, and 40% of the 2007 value

³ Benchmarks are the best performing quartile of hospitals in the U.S. (i.e., the 75th national percentile values)

Weighted averages are: 10% of the 2004 value, 20% of the 2005 value, 30% of the 2006 value, and 40% of the 2007 value

³ Unlike other comparables, these data were derived from Medicare Cost Reports, and not Audited Financial Statements

⁴ Benchmarks are the best performing quartile of hospitals in the U.S. (i.e., the 75th national percentile values)

3.5%. In 2006, no hospital approached the benchmark value of 9.4%.

In 2007, the statewide *Return on Assets* improved 54%, from 1.8% to 2.8%. As a group, RI hospitals generally had lower *Return on Assets* values than their peers, suggesting they did not use their assets as efficiently as others to generate net income.

This measure is affected by the age of the hospital's physical plant, the second largest component of total assets (33.1%), after investments (52.6%, in 2007). All else being equal, older hospitals are favored because of understated historical costs. In 2006, RI's facilities were 13 years old on average, versus 11 years in the Northeast. Therefore, RI's relative performance on this measure was somewhat overstated due to this factor.

<u>C. Changes in Net Worth</u> measure the changes in the net assets (i.e., net worth or equity) of the hospital, or the percentage by which they are growing or shrinking annually (Table 3). Healthy organizations are expected to increase in value over time. Usually, it is a combination of three factors that affect a hospital's net worth: profitability, fundraising, and investment returns.⁵

Any loss in equity is undesirable so higher values are always preferred. Technically, an organization is considered insolvent (i.e., its liabilities exceed its assets) when its net worth is negative.

3: Changes in Net Worth ¹							
	2004	2005	2006	2007	'03-'07 % change		
Bradley	12%	10%	3%	47%	88%		
Butler	13%	11%	6%	17%	56%		
Kent	19%	0%	5%	8%	34%		
Landmark	181%	-180%	-379%	-270%	-1046%		
Memorial	4%	-2%	6%	-3%	5%		
Miriam	17%	17%	9%	20%	80%		
Newport	9%	11%	7%	18%	54%		
RI Hospital	15%	13%	12%	16%	70%		
Roger Williams	10%	13%	-5%	7%	28%		
South County	6%	8%	9%	7%	34%		
St. Joseph	5%	4%	-3%	-11%	-6%		
Westerly	2%	-4%	1%	-5%	-7%		
W&I	15%	12%	21%	18%	82%		
Rhode Island	12.1%	11.2%	9.0%	14.7%	56%		
Northeast	7.7%	6.9%	9.3%				
Benchmarks ²	14.1%	14.1%	15.3%				

¹ Annual growth in net worth (or equity); ((net assets year ¹ - net assets year ⁰) / net assets year ⁰); higher values are preferred ² Benchmarks are the best performing quartile of hospitals in the U.S. (i.e., the 75th national percentile values)

RI's relative performance on this measure was very favorable through 2005, outpacing the NE values by large margins each year. However, in 2006, RI's value fell from 11.2% to 9.0%, below the regional median of 9.3%. In 2006, Women & Infants was the only RI hospital in the benchmark group.

In 2007, RI improved its performance on this measure by 64% (9.0% to 14.7%). That year, four hospitals had decreases in net assets, even though one hospital (Memorial) posted a modest profit of 0.3%.⁶

Landmark's *Change in Net Worth* values for 2005-2007 were all under –100%, indicating the hospital had a negative net worth and was technical insolvent each year since 2005. With virtually no resources to rely on, Landmark must return to profitability to survive (in June 2008, Landmark was placed into Special Mastership which is similar to receivership in insolvent corporations).

<u>D. Operating Margins</u> are the net income percentages from patient services and other ancillary operating activities such as research, hospital rental space, gift shops, parking and cafeteria (Table 4). As with all the profitability measures, higher values are preferred.

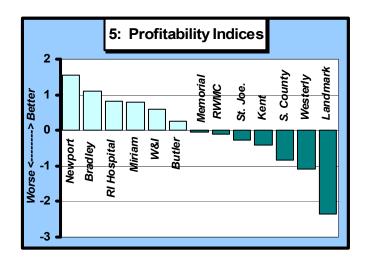
4: Operating Margins ¹						
	2004	2005	2006	2007	Wght. Avg. ²	
Bradley	6.8%	6.2%	0.9%	8.9%	5.8%	
Butler	-1.0%	3.8%	-1.0%	2.2%	1.2%	
Kent	-0.7%	-1.1%	-0.8%	-3.7%	-2.0%	
Landmark	0.2%	-1.4%	-3.7%	-6.4%	-3.9%	
Memorial	-0.4%	-0.9%	-1.4%	-1.1%	-1.1%	
Miriam	3.0%	3.3%	1.6%	2.9%	2.6%	
Newport	-0.2%	0.7%	-0.6%	-1.4%	-0.6%	
RI Hospital	1.3%	2.9%	3.9%	3.9%	3.5%	
Roger Williams	0.6%	-2.0%	-0.8%	0.1%	-0.5%	
South County	0.3%	1.4%	-2.7%	-6.3%	-3.0%	
St. Joseph	0.7%	0.7%	-0.3%	-1.3%	-0.4%	
Westerly	-6.8%	-7.1%	-6.9%	-8.2%	-7.4%	
W&I	1.7%	1.4%	1.4%	2.7%	1.9%	
Rhode Island	1.0%	1.5%	1.0%	0.7%	1.0%	
Northeast ³	1.1%	1.5%	1.8%			
Benchmarks ^{3,4}	5.9%	6.9%	7.0%			

RI's performance on this measure was erratic and weak in 2006 and 2007. In 2005, the RI value increased from 1.0% to 1.5%, equivalent to the Northeast median, but then fell to 1.0%, 47% below the NE comparable of 1.8%. No RI hospital was among the benchmark group in 2006.

In 2007, the RI value fell 22%, from 1.0% to 0.7%. Even though the statewide *Operating Margin* lost ground in 2007, the individual performances were less unfavorable. In 2007, seven RI hospitals lost money from operations, versus nine hospitals in 2006. In addition, seven hospitals improved their margins in 2007 while the remaining six posted reductions.

Low operating profitability is a function of weak revenue and/or excessive expenses. A study of 2004 hospital costs⁷ found RI hospitals, in general, had reasonable expenses, the lowest in New England. However, their reimbursement rates were also the weakest in New England. Whether this is still accurate post-2004, in light of reported increases in hospital reimbursement by the commercial payors, is unknown.

E. Profitability Summary: The top ranked hospitals for overall profitability were **Newport** (#1), **Bradley** (#2), and **RIH** (#3), respectively (Chart 5). Newport was, by far, the most profitable hospital (albeit with weak *Operating Margins*, ranked #8), and the 6th largest growth in equity. Bradley was the 2nd most profitable hospital, with the highest *Operating Margins* and largest growth in equity. RIH had the 3rd highest *Total Margin*, the 4th highest *Return on Assets*, the 2nd best *Operating Margins* and the 4th greatest growth in equity.



The bottom ranked hospitals for overall profitability were **Landmark** (#13), **Westerly** (#12), and **South County** (#11), respectively. Landmark had the 4th lowest *Total Margins*, and *Return on Assets*, the 2nd lowest operating profitability, and the largest loss in equity. Westerly was the 3rd least profitable hospital with the 3rd lowest *Return on Assets*, the lowest operating profitability, and the 2nd largest loss in equity. South County was the least profitable hospital, with the 2nd lowest *Return on Assets*, the 3rd lowest *Operating Margins*, and moderate growth in equity (ranked #8).

The top six ranked hospitals for profitability were all Lifespan or Care New England hospitals, while, with the exception of Kent, six of the seven bottom ranked hospitals were all independent facilities.

¹ Profitability of patient care (and related) activities; (operating income / total revenue), higher values are preferred

Weighted averages are: 10% of the 2004 value, 20% of the 2005 value, 30% of the 2006 value, and 40% of the 2007 value

³ Unlike other comparables, these data were derived from Medicare Cost Reports, and not Audited Financial Statements

⁴ Benchmarks are the best performing quartile of hospitals in the U.S. (i.e., the 75th national percentile values)

IV: CAPITAL STRUCTURE

Capital structure measures indicate the importance of debt in financing the hospital's fixed assets, the cost of those assets, and the ability to incur additional borrowings. These metrics are closely monitored by creditors and bondrating agencies and may ultimately determine the amount of financing available for future capital projects. Four capital structure measures are presented: Debt Service Coverage, Fixed Asset Financing, Capital Expenses, and Age of Plant.

A. Debt Service Coverage is a key capital structure ratio, comparing the available cashflow to the principal and interest obligation on the borrowings (Table 5). Mortgage lenders use this measure to examine the security of the debt, because it examines both a source (numerator) and a use of funds (denominator). Higher values are, therefore, preferred.

5: Debt Service Coverage ¹							
	2004	2005	2006	2007	Wght. Avg. ²		
Bradley	n/a	n/a	n/a	n/a	n/a		
Butler	2.2	4.4	2.1	5.8	4.0		
Kent	2.2	2.2	2.0	1.2	1.7		
Landmark	1.8	1.0	0.4	-0.3	0.4		
Memorial	2.3	2.1	3.2	2.1	2.5		
Miriam	5.2	6.1	4.5	9.7	6.9		
Newport	6.3	6.2	6.1	8.7	7.2		
RI Hospital	3.9	4.4	4.5	8.2	5.9		
Roger Williams	2.0	2.5	1.8	2.6	2.3		
South County	1.5	2.0	0.8	0.5	1.0		
St. Joseph	3.1	3.0	1.6	1.3	1.9		
Westerly	1.7	1.3	1.4	1.4	1.4		
W&I	6.1	5.8	4.5	6.7	5.8		
Rhode Island	3.6	3.9	3.4	3.4	3.5		
Northeast	3.1	3.4	3.5				
Benchmarks ³	5.7	6.7	6.5				

¹ How many times cash-flow can pay the annual interest and principal payments; ((net income + interest expense + depreciation & amortization) / (interest expense + current portion of long term debt)); higher values are preferred

RI's value improved in 2005, ending 17% higher than the NE median, however, in 2006, it fell from 3.9 to 3.4, slightly below the regional comparable. In 2006, the statewide value was 48% below the benchmark of 6.5, and no individual RI hospital was in this top-performing group.

In 2007, RI's value remained essentially unchanged at 3.4, because statewide debt service and cash-flow increased at similar rates (+23% and +24%, respectively). However, the actual experience was more favorable. In 2007, Landmark was out of compliance with its Series 2005 bond covenants and the outstanding balance of \$14.1m was reclassified as a current liability, severely depressing its *Debt Service Coverage*.

B. Fixed Asset Financing measures the amount of debt relative to the hospital's fixed assets (i.e., the plant and equipment, Table 6). Lower values are preferred as they indicate less financial leverage (i.e., less reliance on borrowing) and a greater ability to incur additional debt (all else being equal).

6: Fixed Asset Financing ¹							
	2004	2005	2006	2007	Wght. Avg. ²		
Bradley	0%	0%	0%	0%	0%		
Butler	44%	43%	39%	47%	43%		
Kent	43%	40%	39%	34%	38%		
Landmark	107%	95%	93%	120%	106%		
Memorial	74%	63%	56%	53%	58%		
Miriam	71%	63%	46%	36%	48%		
Newport	47%	46%	46%	43%	45%		
RI Hospital	59%	53%	53%	48%	51%		
Roger Williams	75%	68%	62%	66%	66%		
South County	99%	101%	140%	117%	119%		
St. Joseph	60%	58%	57%	56%	57%		
Westerly	41%	43%	46%	46%	45%		
W&I	47%	44%	40%	36%	40%		
Rhode Island	59%	55%	54%	49%	53%		
Northeast	63%	61%	65%				
Benchmarks ³	7%	7%	15%				

¹ Portion of the physical plant financed with debt; ((long term debt & capital leases + current portion of long term debt) / net fixed assets); lower values are preferred

Weighted averages are: 10% of the 2004 value, 20% of the 2005 value, 30% of the 2006 value, and 40% of the 2007 value

³ Benchmarks are the best performing quartile of hospitals in the U.S. (i.e., the 75th national percentile values)

Weighted averages are: 10% of the 2004 value, 20% of the 2005 value, 30% of the 2006 value, and 40% of the 2007 value

³ Benchmarks are the best performing quartile of hospitals in the U.S. (i.e., the 25th national percentile values)

Over the period 2004-2006, RI hospitals steadily reduced their financial leverage, and remained favorably below the regional values. In addition, from 2004-2006, Bradley was among the best performing hospitals in the country on this measure.

In 2007, RI's value favorably decreased 8%, from 54% to 49%. This improvement was caused by a 1.4% decrease in statewide long-term debt, while fixed assets increased 7.7%. Individually, nine hospitals improved their measures in 2007, while three hospitals' increased their leverage.

South County's 2005-2007 values over 100% likely indicate that some debt was secured but not yet expensed on real capital. However, this would be more unfavorable if the high leverage was caused instead by the term of the debt exceeding the depreciable life of the hard assets acquired or if the debt was incurred for working capital or other short-term purposes.

Landmark's situation was unique concerning its 2007 Fixed Asset Financing value of 120%. It incurred a \$3.9m charge in impairment of its property and equipment (i.e., a reduction in value). This contributed to a 31% drop in net fixed assets (from \$20.1m to \$13.8m), while debt also decreased, but at a slower rate of 11%.

RI hospitals on average, have historically had lower leverage than their Northeast peers. A contributing factor is RI's highly regulated hospital environment whereby new capital projects over \$2m (\$1m for equipment) require certificate of need⁸ approval and the minimum equity funding requirement is 20% (33% for equipment acquisition). Both of these constraints tend to keep local financial leverage comparatively low.

A mitigating factor to RI's favorable leverage was the older age of its hospitals, 13 years versus 11 years in the NE (in 2006). This suggests that RI hospitals will have to invest in new capital sooner than their regional counterparts, and to the extent this capital is financed with debt, RI's financial leverage will increase.

<u>C. Capital Expenses</u> presents the burden of a hospital's capital-related costs relative to its to-

tal costs (Table 7). Capital is expensed through depreciation/amortization of the associated acquisition costs of the fixed assets and the interest expense on the associated debt.

Capital expenses are considered fixed-costs in that they are long-lived and do not vary with volume. Lower values are, therefore, preferred.

7: Capital Expenses ¹							
	2004	2005	2006	2007	Wght. Avg. ²		
Bradley	2.4%	2.2%	2.2%	2.4%	2.3%		
Butler	4.6%	5.1%	4.8%	5.0%	4.9%		
Kent	3.9%	4.4%	4.7%	4.5%	4.4%		
Landmark	4.1%	3.3%	3.2%	2.9%	3.2%		
Memorial	3.2%	3.4%	3.3%	3.3%	3.3%		
Miriam	4.1%	3.8%	3.6%	3.7%	3.7%		
Newport	7.8%	7.7%	7.6%	7.4%	7.5%		
RI Hospital	5.5%	5.1%	4.7%	4.6%	4.8%		
Roger Williams	4.8%	4.5%	4.7%	4.7%	4.7%		
South County	9.4%	9.4%	8.9%	8.6%	8.9%		
St. Joseph	3.5%	3.4%	3.5%	3.8%	3.6%		
Westerly	8.2%	7.9%	7.4%	7.3%	7.6%		
W&I	3.9%	4.1%	4.3%	4.2%	4.2%		
Rhode Island	4.8%	4.7%	4.6%	4.5%	4.6%		
Northeast	6.1%	5.9%	5.6%				
Benchmarks ³	4.7%	4.4%	4.5%				

¹ Percentage of operating expenses attributable to capital-related fixed costs; ((interest expense + depreciation & amortization) / total operating expenses); lower values are preferred

RI improved its values on this measure every year, and beat the NE comparables by ~20% from 2004-2006. In fact, RI's statewide performance was so strong, that it fell just short of the best performing hospitals in the country. In 2006, Bradley, Landmark, Memorial, Miriam, St. Joseph, and W&I were all among this benchmark group.

In 2007, RI's statewide value decreased slightly from 4.6% to 4.5%. Individually, seven hospitals improved their measures in 2007, while six hospitals experienced deteriorations in their values.

RI's low Capital Expenses are very favorable and suggests the hospitals have less costs to

² Weighted averages are: 10% of the 2004 value, 20% of the 2005 value, 30% of the 2006 value, and 40% of the 2007 value

³ Benchmarks are the best performing quartile of hospitals in the U.S. (i.e., the 25th national percentile values)

volume sensitivity than their peers. Therefore, if services drop off in RI, the hospitals should be less likely to experience large increases in unitcosts (i.e., per discharge or per diem).

<u>D. Age of Plant</u> measures the average accounting age of the hospital's fixed assets (Table 8). Lower values are preferred as they indicate a younger physical plant and less need for short-term capital investment (all else being equal).

8: Age of Plant (years) 1						
	2004	2005	2006	2007	Wght. Avg. ²	
Bradley	10.5	12.4	13.2	11.7	12.2	
Butler	12.4	10.7	11.3	10.8	11.1	
Kent	11.9	10.7	11.0	11.9	11.4	
Landmark	14.7	18.1	16.6	9.5	13.9	
Memorial	15.8	15.6	16.2	17.9	16.7	
Miriam	12.9	14.0	14.8	13.5	13.9	
Newport	9.5	10.2	10.9	11.6	10.9	
RI Hospital	13.3	14.8	15.4	14.5	14.7	
Roger Williams	7.5	8.1	8.4	9.0	8.5	
South County	8.8	8.3	8.6	9.4	8.8	
St. Joseph	15.1	15.0	15.1	14.1	14.7	
Westerly	11.5	12.9	13.9	14.6	13.8	
W&I	11.4	11.0	11.0	10.9	11.0	
Rhode Island	12.1	12.6	13.0	12.7	12.7	
Northeast	10.8	10.8	11.0			
Benchmarks ³	7.6	7.7	7.3			

Average age of the physical plant; (accumulated depreciation / depreciation & amortization); lower values are preferred

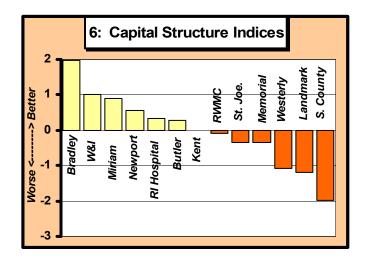
Workford everage are 40% of the 2004 of t

RI has historically had older hospitals than elsewhere, and no individual hospitals were among the benchmark group in 2006. The older age of RI's hospitals has a bearing on their remaining utility, however, these assets rarely become totally useless even after they are fully depreciated. The implication, therefore, is not that hospital capital needs will be greater in RI, but that the timing of those needs may be more imminent.

High Age of Plant values do not always signify capital financing problems provided hospitals maintain adequate profitability. High values, however, may reflect a need for hospitals to fund depreciation at market and not historical

cost levels to insure adequate monies for capital replacement.

E. Capital Structure Summary: The top ranked hospitals for overall capital structure in the state were **Bradley (#1)**, **W&I (#2)**, and **Miriam (#3)**, respectively (Chart 6). Bradley had the highest debt capacity, and lowest financial leverage and capital expenses. W&I had the 5th highest debt capacity, the 3rd lowest leverage, and the 6th lowest capital expenses. Miriam had the 3rd greatest debt capacity, average leverage (ranked #7), and the 5th lowest capital-related fixed costs.



The bottom ranked hospitals for capital structure were **South County (#13)**, **Landmark (#12)**, and **Westerly (#11)**, respectively. South County had the 2nd lowest debt capacity, the highest financial leverage, the highest capital expenses. Landmark had the lowest debt capacity, the 2nd highest leveraged, but the 2nd lowest fixed costs. Westerly had the 3rd lowest debt capacity, moderate financial leverage (ranked #6), but the 2nd highest capital-related fixed costs.

The top six ranked hospitals for capital structure were all Lifespan or Care New England hospitals, while, with the exception of Kent, six of the seven bottom ranked hospitals were all independent facilities.

² Weighted averages are: 10% of the 2004 value, 20% of the 2005 value, 30% of the 2006 value, and 40% of the 2007 value

³ Benchmarks are the best performing quartile of hospitals in the U.S. (i.e., the 25th national percentile values)

V: LIQUIDITY

Liquidity measures examine the ability of a hospital to meet its short-term obligations (i.e., to pay its bills), and the timing of cash-flows. Most organizations experience a financial crisis because of liquidity problems, and deterioration in these measures may presage future insolvency. Four liquidity measures are examined: Days Cash on Hand, Days in Accounts Receivable, Average Payment Period, and Current Ratios.

A. Days Cash on Hand (short-term sources) measures how many days of average operating expenses the hospital retains in cash and short-term securities (Table 9). It is a more stringent gauge of liquidity than the Current Ratio, because it includes only those assets that are, or readily convertible to cash, in the numerator.

Higher values on this measure are preferred, but those values shouldn't be 'excessive.' Hospitals must strike a balance between maintaining enough cash (and near-cash) for operations, but not so much as to affect profitability. The return on short-term investments is generally less than that of monies invested longer, so there is an opportunity cost in maintaining liquidity.

9: Days Cash on Hand (short-term) 1							
	2004	2005	2006	2007	Wght. Avg. ²		
Bradley	13	19	18	29	22		
Butler	97	93	85	76	84		
Kent	8	0	0	0	1		
Landmark	39	34	23	25	28		
Memorial	3	2	3	3	3		
Miriam	32	46	22	10	23		
Newport	25	35	34	39	35		
RI Hospital	8	13	22	16	16		
Roger Williams	21	36	33	31	32		
South County	125	132	105	124	120		
St. Joseph	51	77	65	46	59		
Westerly	6	9	4	5	6		
W&I	54	34	29	56	43		
Rhode Island	28	32	29	30	30		
Northeast	32	31	27				
Benchmarks ³	55	57	58				

¹ Number of days of average (cash) expenses maintained in cash and near-cash; ((cash & short-term investments) / ((total operating expenses - depreciation & amortization) / 365)); higher values are preferred

Weighted averages are: 10% of the 2004 value, 20% of the 2005 value, 30% of the 2006 value, and 40% of the 2007 value

³ Benchmarks are the best performing quartile of hospitals in the U.S. (i.e., the 75th national percentile values)

RI had mixed performance on this measure. Absolute values varied but relative performance improved steadily with the statewide value 10% above the Northeast median in 2006. In addition, that year, both Butler and South County were among the benchmark hospitals.

In 2007, RI's value improved from 29 to 30 days. That year, seven hospitals increased their values, five hospitals experienced reductions, and one remained the same. Two of the three hospitals with the lowest 2007 values had to access short-term bank credit for operating capital (i.e., Kent 0 days cash, no credit balance, Memorial 3 days cash, \$4.6m credit balance, and Westerly 5 days cash, \$4.5m credit balance). As expected, none of the three hospitals with the largest cash balances had to borrow working capital (i.e., South County 124 days cash, Butler 76 days cash, and W&I 56 days cash).

B. Days in Accounts Receivable measures the average time (in days) receivables are outstanding (Table 10). Lower values on this measure are favored. Patient care is the primary source of operating revenue (e.g., 90% in 2007), so prompt collection of these bills is critical. Increases in this measure can create cashflow problems that usually cause a hospital to extend its own payables (i.e., the Average Payment Period).

10: Days in Accounts Receivable ¹								
	2004	2005	2006	2007	Wght. Avg. ²			
Bradley	54	56	50	62	56			
Butler	40	28	26	27	28			
Kent	60	62	56	47	54			
Landmark	33	31	32	34	33			
Memorial	77	70	69	78	73			
Miriam	42	38	44	38	40			
Newport	44	36	38	36	37			
RI Hospital	48	42	47	49	47			
Roger Williams	47	38	39	37	39			
South County	52	51	58	47	52			
St. Joseph	55	44	54	55	52			
Westerly	40	40	48	42	43			
W&I	48	50	54	45	49			
Rhode Island	50	46	49	47	48			
Northeast	50	45	48					
Benchmarks ³	46	44	45					

Weighted averages are: 10% of the 2004 value, 20% of the 2005 value, 30% of the 2006 value, and 40% of the 2007 value

RI's relative performance on this measure was essentially equivalent to the NE peer group through 2006. That year, Butler, Landmark, Miriam, Newport, and Roger Williams were among the best performing hospitals in the country.

In 2007, RI improved its statewide value 4%, from 49 to 47 days. That year, seven hospitals improved their performances while six hospitals' performances worsened.

Ideally, realization of cash should favor the collections side (i.e., revenue is received faster than bills are paid), or the hospital may need to finance its operations with short-term loans, the most expensive type of credit. Fortunately, RI hospitals were generally effective in managing their receivables despite their weaker current account balances (i.e., *Current Ratios*). In addition, on a statewide basis, collections were received faster than bills were paid (i.e., *Average Payment Periods*).

<u>C. Average Payment Period</u> measures the average number of days before current liabilities (i.e., bills and other immediate obligations due within one year) are paid (Table 11). Current liabilities (i.e., payables) represent an immediate demand on hospital funds and stretching out the payment of these obligations may indicate problems with cash-flow, so lower values on this measure are generally favored.

11: Average Payment Period (days) 1								
	2004	2005	2006	2007	Wght. Avg. ²			
Bradley	50	42	49	41	44			
Butler	148	142	97	73	102			
Kent	96	95	88	71	84			
Landmark	68	67	70	109	85			
Memorial	62	57	53	64	59			
Miriam	45	51	63	41	50			
Newport	45	41	40	37	39			
RI Hospital	41	43	46	40	43			
Roger Williams	69	80	83	82	81			
South County	52	51	53	88	67			
St. Joseph	68	84	88	68	77			
Westerly	80	85	75	74	77			
W&I	78	70	65	70	69			
Rhode Island	65	66	65	64	65			
Northeast	64	63	61					
Benchmarks ³	40	38	38					

Average time before obligations are paid; (current liabilities / ((total operating expenses - depreciation & amortization) / 365)); generally, lower values are preferred

RI's absolute performance on this measure was fairly consistent from year to year, while its relative performance increased unfavorably to 7% above the Northeast median in 2006. That year, no local hospital was in the benchmark group.

In 2007, RI experienced a slight statewide improvement from 65 to 64 days. That year, nine hospitals reduced their payment periods while four hospitals increased their payment times.

Theoretically, the payment of bills should be matched with (i.e., not precede) the collection of receivables except when sufficient prepayment or early payment discounts exist. In 2007, three hospitals had shorter payment periods than collections times (i.e., Bradley, Memorial and RI Hospital).

Landmark's cash-flow timing was consistent with its weak financial condition. In 2007, it had the 2nd fastest collections time (34 days), yet it took the longest to settle its obligations (109 days, up from 70 days in 2006). As Landmark struggles to improve liquidity by extending its payables, it must balance this with the need to

Average time receivables are outstanding (uncollected); (net patient receivables / (net patient revenue / 365)); lower values are preferred

³ Benchmarks are the best performing quartile of hospitals in the U.S. (i.e., the 25th national percentile values)

Weighted averages are: 10% of the 2004 value, 20% of the 2005 value, 30% of the 2006 value, and 40% of the 2007 value

³ Benchmarks are the best performing quartile of hospitals in the U.S. (i.e., the 25th national percentile values)

maintain good vendor relations or it may find itself transacting on a cash-only basis.

<u>D. The Current Ratio</u> evaluates the amount of assets held in short-term positions available to pay off each dollar in obligations coming due within the year (Table 12). The *Current Ratio* is closely related to the hospital's working capital (i.e., current assets less current liabilities), with values greater than '1.00' indicating positive working capital and vice-versa. Higher values are, therefore, preferred.

12: Current Ratios¹								
	2004	2005	2006	2007	Wght. Avg. ²			
Bradley	1.45	1.86	1.39	2.41	1.90			
Butler	1.09	1.21	1.39	1.81	1.49			
Kent	0.85	0.79	0.79	0.80	0.80			
Landmark	1.30	1.16	0.94	0.65	0.90			
Memorial	1.42	1.44	1.53	1.40	1.45			
Miriam	1.83	1.76	1.12	1.34	1.41			
Newport	2.33	2.47	2.52	2.30	2.40			
RI Hospital	1.54	1.43	1.67	1.87	1.69			
Roger Williams	1.11	1.01	0.95	0.94	0.98			
South County	3.68	3.84	3.34	2.05	2.96			
St. Joseph	1.69	1.59	1.51	1.65	1.60			
Westerly	0.67	0.73	0.84	0.75	0.76			
W&I	1.44	1.37	1.56	1.68	1.56			
Rhode Island	1.40	1.37	1.39	1.42	1.40			
Northeast	1.63	1.56	1.53					
Benchmarks ³	2.88	3.05	3.02					

Number of current asset dollars available to pay off each dollar of current liabilities; (current assets / current liabilities); higher values are preferred

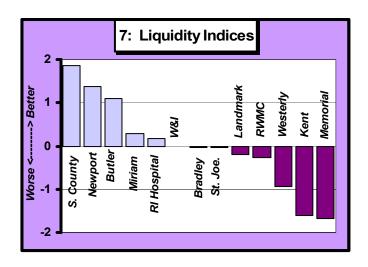
Low *Current Ratio* values have been a chronic problem locally, and in 2006, RI ended 9% below the Northeast median, and 54% below the U.S. benchmark. That year, South County was the only hospital in the benchmark group.

In 2007, there was a slight improvement in the statewide measure, from 1.39 to 1.42. Seven hospitals improved their individual values while six hospitals posted declines.

In 2007, Landmark, Westerly, Kent and Roger Williams all had *Current Ratio* values less than '1.00', indicating negative working capital. Low values, however, do not necessarily signify solvency problems if current liabilities include payments that may be rolled over (e.g., con-

struction/bridge-loans or Landmark's \$14.1m restatement of long-term debt as a current liability), or if there are investments that may be redirected into more liquid positions. Another factor mitigating the need for high values is the efficiency by which hospitals collects their bills. These four hospitals had *Days in Accounts Receivable* values at or favorably below the statewide value in 2007.

E. Liquidity Summary: The top ranked hospitals in the state for liquidity were **South County** (#1), **Newport** (#2), and **Butler** (#3), respectively (Chart 7). South County had the strongest cash position and current accounts, but the 5th longest collections. Newport had the 2nd strongest current accounts, better than average cash balances (ranked #5), and the 3rd shortest collections period. Butler had average current accounts (ranked #7), the 2nd strongest cash position and the shortest collections.



The bottom ranked hospitals for liquidity were **Memorial** (#13), **Kent** (#12), and **Westerly** (#11), respectively. Memorial had below average current accounts balances (ranked #8), the 2nd smallest cash position and the slowest collections. Kent had the 2nd weakest current accounts, the weakest cash position, and the 3rd longest collections. Westerly had the weakest current account balances, the 3rd smallest cash position, but better than average collections (ranked #6).

With the exception of S. County, five of the six top ranked hospitals for liquidity were all Lifespan or Care New England hospitals, while, with the exceptions of Bradley and Kent, five of the seven bottom ranked hospitals were all independent facilities.

Weighted averages are: 10% of the 2004 value, 20% of the 2005 value, 30% of the 2006 value, and 40% of the 2007 value

³ Benchmarks are the best performing quartile of hospitals in the U.S. (i.e., the 75th national percentile values)

VI: HOSPITAL SUMMARIES

To determine <u>overall</u> financial performance for RI's 13 hospitals, a weighted average of the three indices was calculated. The weighted averages were then standardized to arrive at a single overall performance index for each hospital (see Appendix A –Methodology). Higher index values are always preferred.

Profitability was rated most important (45%) because all other measures pale in comparison. Hospitals that consistently lose money and value will not survive. It doesn't matter how low the debt burden, or how strong the liquidity, an unprofitable hospital is fated for failure.

Capital structure was rated second in importance (30%) because it reflects non-recourse, long-term investment in assets that essentially determine how well a hospital can compete in the marketplace. Not only must the hospital facility be efficient and attractive, but current technologies must also be made available to patients.

Liquidity was rated last in importance (25%), because it deals with current (under one year) obligations, none of which are likely to severely compromise the hospital in the long-term. Further, liquidity may be improved through the real-location of assets into current positions.

Table 13 presents each hospital's index values and the overall ranking of their financial performance. The hospitals are compared to each other, and not to any regional or national peer groups.

The top ranked hospitals in the state were Newport (#1), Bradley (#2), and Miriam (#3), while the bottom ranked hospitals were Landmark (#13), Westerly (#12), and Kent (#11), respectively.

13. Index Values¹								
	Profitability	Capital Structure	Liquidity	Ove Value	rall Rank²			
Bradley	1.10	1.97	-0.04	1.36	2			
Butler	0.27	0.29	1.10	0.61	6			
Kent	-0.41	-0.01	-1.61	-0.74	11			
Landmark	-2.34	-1.19	-0.19	-1.84	13			
Memorial	-0.05	-0.35	-1.68	-0.70	10			
Miriam	0.79	0.89	0.28	0.88	3			
Newport	1.55	0.57	1.37	1.53	1			
RI Hospital	0.83	0.33	0.18	0.65	5			
Roger Williams	-0.12	-0.09	-0.27	-0.18	7			
South County	-0.84	-1.99	1.85	-0.65	9			
St. Joseph	-0.27	-0.34	-0.05	-0.30	8			
Westerly	-1.09	-1.08	-0.93	-1.33	12			
W&I	0.58	1.01	-0.01	0.71	4			

¹ Higher values on all indices are preferred

Following is a financial synopsis of each hospital. Included are a chart graphing net income and net worth (the two most important financial indicators), and percent composition tables comparing the hospital and statewide values.

When a value for a specific measure is referenced (e.g., *Total Margin*, *Capital Expenses*, etc.), it refers to the weighted average for the four years 2004-2007.³ Also, the vernacular 'best' or 'worst,' 'strongest' or 'weakest,' or 'superior' or 'inferior' refers to financial performance only, and not to the quality of care provided at any particular hospital.

² Ranked from 'best' (#1) to 'worst' performer (#13)

A. Bradley:

Emma Pendleton Bradley Hospital is a 60 bed non-profit psychiatric hospital for children and adolescents. Bradley is a teaching affiliate of the Medical School of Brown University, and a controlled affiliate of the Lifespan Corporation.

Bradley was the 2nd strongest hospital in the state (ranked #2, out of 13), with a RI market share of 2.0% (based on 2007 patient revenue).

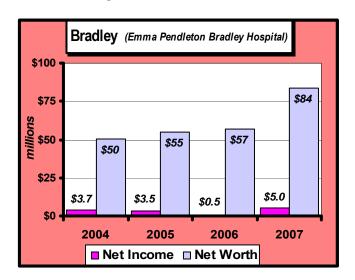
	Bradley Perce	nt Com	positi	on Table	es
		2006 %s	2007 %s	Change in Percentage Points	2007 State- wide
	BAL	ANCE S	HEET		
ASSETS	Patient Receivables Investments Net Fixed Assets Other Assets	9.8% 67.5% 21.8% 0.9%	9.4% 73.1% 16.7% 0.9%	-0.3% 5.5% -5.1% -0.1%	9.8% 52.6% 33.1% 4.4%
1	Total Assets	100%	100%	-0.1 /0	100%
LIABILITIES	Line of Credit Long-Term Debt Other Liabilities Net Worth	0.0% 0.0% 14.0% 86.0%	0.0% 0.0% 8.7% 91.3%	0.0% 0.0% -5.3% 5.3%	0.3% 16.3% 23.4% 60.0%
	P&L	STATE	MENT		
REVENUE	Patient Revenue Net Medicaid DSH¹ Other Operating Rev. Net Non-Oper. Rev.	88.6% 0.1% 11.2% 0.0%	90.9% 0.1% 8.9% 0.0%	2.3% 0.0% -2.3% 0.0%	86.4% 1.1% 9.9% 2.6%
S	Total Rev. & Gains Wages & Benefits	75.4%	71.9%	-3.5%	58.1%
EXPENSES	Interest & Deprec. Bad Debt Other Expenses Net Income	2.1% 0.7% 20.8% 0.9%	2.2% -0.7% 17.6% 9.0%	-3.5 % 0.1% -1.4% -3.2% 8.1%	4.5% 5.5% 28.6%

¹ net of hospital license fees

Bradley's 2007 (percent composition) **Balance Sheet** reflected its strong finances. Investments far exceeded the statewide average (73.1% vs 52.6%), total debt (including credit) was nil (vs 16.6% statewide), and net worth was the highest in the state (91.3% vs 60.0%). Bradley's 2007 (percent composition) **P&L Statement** showed marginal bad debt, favorable capital expenses (2.2% vs 4.5%), and healthy net income (9.0% vs 3.3%). The hospital's operations were labor-intensive (71.9% vs 58.1%), consistent with its provision of behavioral health as opposed to medical/surgical services.

Bradley ranked #2 in overall **profitability**. It had the 2nd highest *Total Margin* (5.8%, ranked #2), and *Return on Assets* (4.1%, ranked #2). Bradley posted the highest operating profitability (5.8%, ranked #1), and its net worth increased 88% from 2003-2007, the largest increase in the state (ranked #1).

Bradley had the strongest **capital structure** in the state (ranked #1), with no long-term debt, and the lowest capital expenses of all hospitals (2.3%, ranked #1). The age of its physical plant was average (11.7 years in 2007, ranked #7). Bradley's lack of debt, however, may be a double-edged sword. The ability to favorably enter the capital markets when financing is needed is dependent on one's credit history. No matter how creditworthy Bradley is, its credit track record is lacking.



Bradley had average overall **liquidity**, ranked #7 in the state. Even though its current accounts were average (1.9, ranked #7), its cash position was weak (22 days, ranked #9), and it took fairly long to collect its receivables (56 days, ranked #12). In 2007, Bradley's cashflow favored the payment side, with invoices settled before bills were collected (41 vs. 62 days, respectively).

B. Butler:

Butler Hospital & affiliate (Duncan Lodge, LLC), is a 117 bed non-profit psychiatric hospital for adolescents and adults. Butler is a teaching affiliate of the Medical School of Brown University, and a controlled affiliate of the Care New England Health System.

Butler ranked #6 (out of 13) in overall financial performance, and it had a RI market share of 1.8% (based on 2007 patient revenue).

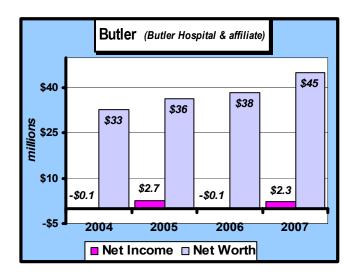
	Butler Percent Composition Tables						
		2006 %s	2007 %s	Change in Percentage Points	2007 State- wide		
	BAL	ANCE S	HEET				
SSETS	Patient Receivables Investments Net Fixed Assets	4.2% 54.4% 31.1%	4.4% 52.5% 31.9%	0.2% -1.9% 0.8%	9.8% 52.6% 33.1%		
¥	Other Assets	10.4%	11.2%	0.9%	4.4%		
LIABILITIES	Total Assets Line of Credit Long-Term Debt Other Liabilities Net Worth	100% 0.0% 12.1% 32.1% 55.9%	100% 0.0% 14.9% 25.8% 59.3%	0.0% 2.8% -6.2% 3.4%	100% 0.3% 16.3% 23.4% 60.0%		
	P&L	STATE	MENT				
REVENUE	Patient Revenue Net Medicaid DSH ¹ Other Operating Rev. Net Non-Oper. Rev.	62.5% 0.0% 36.7% 0.8%	63.7% 0.0% 35.3% 1.0%	1.2% 0.0% -1.4% 0.3%	86.4% 1.1% 9.9% 2.6%		
Ļ	Total Rev. & Gains	100%	100%		100%		
EXPENSES	Wages & Benefits Interest & Deprec. Bad Debt Other Expenses	71.0% 4.8% 2.0% 22.4%	68.9% 4.8% 1.7% 21.3%	-2.1% 0.0% -0.3% -1.1%	58.1% 4.5% 5.5% 28.6%		
	Net Income	-0.2%	3.2%	3.4%	3.3%		

net of hospital license fees

Butler's 2007 (percent composition) **Balance Sheet** approximated the state composite in many respects. Investments were comparable (52.5% vs 52.6%), as was equity (59.3% vs 60.0%), and debt (14.9% vs 16.3%). Butler's 2007 (percent composition) **P&L Statement** was similar to the state in net income (3.2% vs 3.3%), and capital expenses (4.8% vs 4.5%), but it relied more on other operating and non-operating revenue (36.3% vs 12.5%). Like Bradley Hospital, Butler's relative personnel costs were higher than average (68.9% vs 58.1%), consistent with its provision of behavioral health as opposed to medical/surgical services.

Butler was slightly better than average in overall **profitability** (ranked #6). It ranked #6 in both *Total Margins* (2.1%), and *Return on Assets* (1.9%). Butler ranked #5 in operating profitability (1.2%), and it had the 5th largest 2003-2007 growth in net worth (+56%, ranked #5).

Butler ranked #6 in **capital structure**. It had the 4th lowest leverage (43%, ranked #4), but its capital expenses were high (4.9%, ranked #10). Butler's debt capacity was better than average (4.0, ranked #5), and its physical plant was relatively new (10.8 years in 2007, ranked #4).



Butler had the 3rd strongest **liquidity** in the state. Even though its current account balances were average (1.49, ranked #7), and it took a long time to pay its bills (102 days, ranked #13), its cash balances were the 2nd highest (84 days, ranked #2). In addition, Butler had the shortest collections period of any hospital (28 days, ranked #1).

C. Kent:

Kent County Memorial Hospital & affiliates (Kent Hospital Foundation, Kent Ancillary Services, LLC, and Toll Gate Indemnity, Ltd.), collectively known as the hospital or Kent, includes a 359 bed non-profit, general acute-care hospital (with ancillary support organizations). Kent is a teaching affiliate of the University of New England College of Osteopathic Medicine, and a controlled affiliate of the Care New England Health System.

Kent was the 3rd weakest hospital in the state (ranked #11, out of 13), with a RI market share of 9.0% (based on 2007 patient revenue).

	Kent Percent	Comp	ositio	n Tables	
		2006 %s	2007 %s	Change in Percentage Points	2007 State- wide
	BAL	ANCE S	HEET		
	Patient Receivables	18.5%	16.5%	-2.0%	9.8%
TS	Investments	28.4%	30.6%	2.2%	52.6%
SE	Net Fixed Assets	42.8%	44.3%	1.5%	33.1%
AS	Other Assets	10.3%	8.6%	-1.7%	4.4%
	Total Assets	100%	100%		100%
ES	Line of Credit	5.2%	0.0%	-5.2%	0.3%
ΙĦ	Long-Term Debt	16.6%	15.1%	-1.5%	16.3%
LIABII	Other Liabilities	34.0%	35.8%	1.9%	23.4%
	Net Worth	44.2%	49.1%	4.9%	60.0%
	P&L	STATE	MENT		
	Patient Revenue	95.4%	95.0%	-0.3%	86.4%
REVENUE	Net Medicaid DSH ¹	-0.2%	-0.2%	0.0%	1.1%
ΙĘ	Other Operating Rev.	4.0%	3.6%	-0.4%	9.9%
Æ	Net Non-Oper. Rev.	0.8%	1.6%	0.7%	2.6%
	Total Rev. & Gains	100%	100%		100%
ES	Wages & Benefits	58.2%	58.8%	0.6%	58.1%
SS	Interest & Deprec.	4.8%	4.7%	-0.1%	4.5%
EXPENS	Bad Debt	6.3%	7.4%	1.1%	5.5%
Ä	Other Expenses	30.8%	31.3%	0.5%	28.6%
	Net Income	0.0%	-2.2%	-2.2%	3.3%

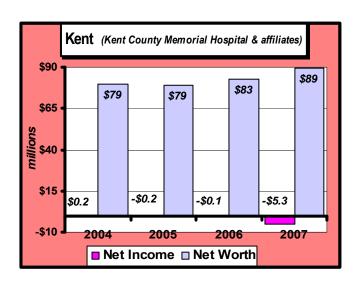
¹ net of hospital license fees

Kent's 2007 (percent composition) **Balance Sheet** reflected its weak financial condition. It's investments were relatively meager (30.6% vs 52.6%), it held too many receivables (16.5% vs 9.8%), and its equity was poor (49.1% vs 60.0%). Kent's 2007 (percent composition) **P&L Statement** was also problematic. It had less other operating and non-operating revenue (5.2% vs 12.5%) and a net Medicaid DSH loss of –0.2% compared to a statewide gain of 1.1%.

Kent's bad debt was excessive (7.4% vs 5.5%), and its net income was lacking (-2.2% vs 3.3%).

Kent ranked #10 in overall **profitability**. Its bottom-line profitability was troublesome (-0.9%, ranked #10), as were its *Return on Assets* (-1.2%, ranked #10), and operating profitability (-2.0%, ranked #10). Kent's 2003-2007 growth in net worth was below average (+34%, ranked #7).

Kent's overall **capital structure** was average (ranked #7). It had very low financial leverage (38%, ranked #2), but average *Capital Expenses* (4.4%, ranked #7). Kent's debt capacity was fairly weak (1.7, ranked #9), because of low profitability, and its facility was slightly older, on average (11.9 years in 2007, ranked #8).



Kent had the 3rd weakest **liquidity** in the state (ranked #11). It had negative working capital (*Current Ratio* of .80, ranked #12), the weakest cash reserves (1 day, ranked #13), and the 3rd longest collections period of any hospital (54 days, ranked #11). Kent's *Average Payment Period* was the 3rd longest in the state (84 days, ranked #11), and a sign of its cash-flow problems.

D. Landmark:

Landmark Health Systems, Inc. (LHS), is a non-profit holding company and the sole corporate member of the following affiliates: 50% interest in the Rehabilitation Hospital of Rhode Island, and Landmark Medical Center & affiliates (Landmark Healthcare Foundation, 50% interest in a Physician Hospital Organization, and the other 50% interest in the Rehabilitation Hospital of Rhode Island). LHS, collectively known as the hospital or Landmark, includes Landmark Medical Center, a 214 bed non-profit general acute-care hospital and Rehabilitation Hospital of Rhode Island, an 82 bed for-profit inpatient rehabilitation center organized as a limited partnership.

Landmark was the weakest hospital in the state (ranked #13, out of 13), and is currently (in 2008) in Special Mastership (similar to receivership of a corporation in bankruptcy proceedings). Its 2007 RI market share was 5.2% (based on patient revenue).

	Landmark Perce	ent Co	mnosi	tion Tah	les .
	Landmark Fere	2006 %s	2007 %s	Change in Percentage Points	2007 State- wide
	BAL	ANCE S	HEET		
ASSETS	Patient Receivables Investments Net Fixed Assets Other Assets Total Assets	23.6% 23.1% 41.8% 11.4%	28.2% 29.8% 31.4% 10.7% 100%	4.6% 6.6% -10.5% -0.8%	9.8% 52.6% 33.1% 4.4%
LIABILITIES	Line of Credit Long-Term Debt Other Liabilities Net Worth	1.6% 38.8% 64.6% -5.0%	4.5% 37.7% 78.1% -20.3%	2.9% -1.1% 13.5% -15.3%	0.3% 16.3% 23.4% 60.0%
	P&L	STATE	MENT		
REVENUE	Patient Revenue Net Medicaid DSH¹ Other Operating Rev. Net Non-Oper. Rev. Total Rev. & Gains	95.8% 1.0% 1.7% 1.5% 100%	97.0% 0.9% 1.6% 0.4% 100%	1.2% -0.1% -0.1% -1.1%	86.4% 1.1% 9.9% 2.6%
EXPENSES	Wages & Benefits Interest & Deprec. Bad Debt Other Expenses Net Income	54.0% 3.3% 7.7% 37.3% -2.3%	52.9% 3.1% 9.2% 40.8%	-1.1% -0.2% 1.6% 3.5% -3.8%	58.1% 4.5% 5.5% 28.6% 3.3%

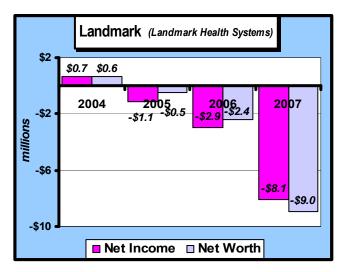
¹ net of hospital license fees

Landmark's 2007 (percent composition) **Balance Sheet** reflected its alarming finances. Investments were weak (29.8% vs 52.6%), re-

ceivables were excessive (28.2% vs 9.8%), total debt (including credit) was onerous (42.2% vs 16.6%), and net worth was non-existent (-20.3% vs 60.0%). Landmark's 2007 (percent composition) **P&L Statement** was also dismal. Other operating and non-operating revenue were marginal (2.0% vs 12.5%), bad debt was excessive (9.2% vs 5.5%), and its net income was onerous (-6.1% vs 3.3%).

Landmark's overall **profitability** was the weakest in the state (ranked #13). It had the 2nd lowest bottom-line profitability (-3.2%, ranked #12), and operating profitability (-3.9%). Its *Return on Assets* was the lowest of all hospitals (-9.5%, ranked #13). Landmark's 2003-2007 change in net worth of –1046% was the worst in the state 9ranked #13), and the hospital was technically insolvent in 2005, 2006, and 2007 (i.e., its liabilities exceeded its assets).

Landmark had the 2nd weakest **capital structure** in the state (ranked #12). It had the 2nd highest financial leverage (106%, ranked #12), but favorable capital expenses (3.2%, ranked #2). The hospital's debt capacity was the 2nd lowest of all hospitals (0.4, ranked #12). On the plus side was a relatively young physical plant (9.5 years in 2007, ranked #3).



Landmark ranked #9 in **liquidity**. It had negative working capital (*Current Ratio* of 0.90, ranked #11), but an average cash position (28 days, ranked #7). Landmark excelled at managing its receivables (33 days, ranked #2), but it took considerable time to pay its bills because of cash-flow problems (85 days, ranked #12).

E. Memorial:

Southeastern Healthcare System, Inc. & Affiliates (SHS), is a non-profit holding company and the sole corporate member of the following affiliates: Memorial Hospital of Rhode Island & affiliates (R.S. Realty Company, and SHS Ventures), Primary Care Centers of New England, Inc., and Blackstone Health, Inc. SHS, collectively known as the hospital or Memorial, includes Memorial Hospital of Rhode Island, a 294 bed non-profit general acute-care teaching affiliate of the Medical School of Brown University (and ancillary support organizations).

Memorial was the 4th weakest hospital in the state (ranked #10, out of 13), and it had a RI market share of 6.3% (based on 2007 patient revenue).

	Memorial Perce	ent Cor	nposit	ion Tabl	es
		2006 %s	2007 %s	Change in Percentage Points	2007 State- wide
	BAL	ANCE S	HEET		
Pa	tient Receivables	23.2%	24.9%	1.7%	9.8%
	estments/	45.2%	46.7%	1.4%	52.6%
띯 Ne	t Fixed Assets	28.3%	25.8%	-2.4%	33.1%
SY Ot	her Assets	3.3%	2.6%	-0.7%	4.4%
To	tal Assets	100%	100%		100%
监 Lir	ne of Credit	0.4%	3.3%	2.9%	0.3%
	ng-Term Debt	15.9%	13.7%	-2.2%	16.3%
III Ot	her Liabilities	21.9%	27.5%	5.5%	23.4%
∄ Ne	t Worth	61.7%	55.6%	-6.2%	60.0%
	P&L	STATE	MENT		
Pa	tient Revenue	88.0%	90.5%	2.5%	86.4%
I≌ Ne	et Medicaid DSH1	2.8%	2.8%	0.0%	1.1%
恒 Ot	her Operating Rev.	6.1%	5.3%	-0.7%	9.9%
SEVENUE ON OF	t Non-Oper. Rev.	3.2%	1.4%	-1.7%	2.6%
	tal Rev. & Gains	100%	100%		100%
Si Wa	ages & Benefits	62.6%	63.9%	1.4%	58.1%
EXPENSES IN BOT	erest & Deprec.	3.3%	3.4%	0.1%	4.5%
문 Ba	nd Debt	6.2%	6.9%	0.7%	5.5%
ĭ Ot	her Expenses	26.2%	25.6%	-0.6%	28.6%
	t Income	1.8%	0.3%	-1.5%	3.3%

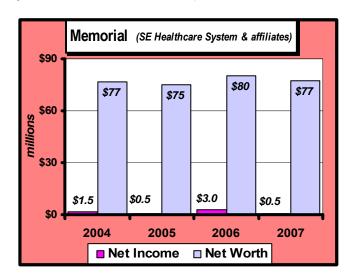
¹ net of hospital license fees

Memorial's 2007 (percent composition) **Balance Sheet** reflected its weak finances. Investments were relatively small (46.7% vs 52.6%), receivables were disproportionately high (24.9% vs 9.8%), and equity was inferior (55.6% vs 60.0%). The total debt burden was average (17.0% vs 16.6%), but the portion comprised of credit was excessive (3.3% vs

0.3%). Memorial's 2007 (percent composition) **P&L Statement** was also lacking. Other operating and non-operating revenue were weak (6.7% vs 12.5%), bad debt was unfavorable (6.9% vs 5.5%), and net income was nominal (0.3% vs 3.3%). On the plus side were higher net Medicaid DSH payments (2.8% vs 1.1%), and low capital expenses (3.4% vs 4.5%).

Memorial ranked #7 in overall **profitability**. Its *Total Margin* was average (0.85, ranked #7), as was its *Return on Assets* (1.0%, ranked #7). Memorial's operating profitability was slightly weaker (-1.1%, ranked #9), and it had the 4th smallest 2003-2007 growth in net worth (+5%, ranked #10).

Memorial ranked #10 in **capital structure**. It had relatively high financial leverage (58%, ranked #10), but its capital expenses were very reasonable (3.3%, ranked #3). Memorial's debt capacity was average (2.5, ranked #6), but its physical plant was the oldest in the state (17.9 years in 2007, ranked #13).



Memorial had the worst overall **liquidity** in the state (ranked #13). Its current account balances were average (1.45, ranked #8), but its cash position was negligible (3 days, ranked #12). Memorial had the slowest collections of any hospital (73 days, ranked #13), but it paid its obligations in a more timely manner (59 days, ranked #5). In 2007, Memorial's cashflow favored the payment side, with invoices paid before bills were collected (64 vs 78 days, respectively).

F. Miriam:

The Miriam Hospital is a 247 bed non-profit general acute-care teaching affiliate of the Medical School of Brown University, and a controlled affiliate of the Lifespan Corporation

Miriam was the 3rd strongest hospital in the state (ranked #3 out of 13), with a RI market share of 10.9% (based on 2007 patient revenue).

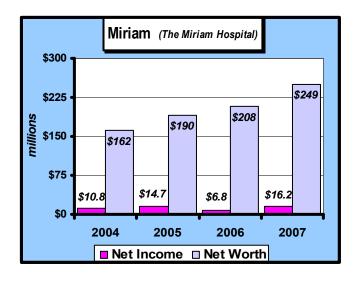
	Miriam Percent Composition Tables						
		2006 %s	2007 %s	Change in Percentage Points	2007 State- wide		
	BAL	ANCE S	HEET				
SETS	Patient Receivables Investments Net Fixed Assets	9.7% 50.7% 35.1%	8.3% 47.3% 41.6%	-1.4% -3.4% 6.6%	9.8% 52.6% 33.1%		
ASS	Other Assets	4.6%	2.8%	-1.8%	4.4%		
LIABILITIES	Total Assets Line of Credit Long-Term Debt Other Liabilities Net Worth	100% 0.0% 16.0% 21.8% 62.2%	100% 0.0% 14.8% 14.1% 71.1%	 0.0% -1.2% -7.7% 8.9%	100% 0.3% 16.3% 23.4% 60.0%		
	P&L	STATE	MENT				
REVENUE	Patient Revenue Net Medicaid DSH ¹ Other Operating Rev. Net Non-Oper. Rev.	87.9% -0.2% 11.6% 0.7%	86.9% -0.2% 11.1% 2.2%	-1.0% 0.0% -0.6% 1.6%	86.4% 1.1% 9.9% 2.6%		
	Total Rev. & Gains	100%	100%		100%		
EXPENSES	Wages & Benefits Interest & Deprec. Bad Debt Other Expenses	50.2% 3.6% 5.3% 38.6%	48.8% 3.6% 5.2% 37.3%	-1.4% 0.0% -0.1% -1.3%	58.1% 4.5% 5.5% 28.6%		
	Net Income	2.3%	5.1%	2.8%	3.3%		

¹ net of hospital license fees

Miriam's 2007 (percent composition) Balance **Sheet** was favorable. Even though investments were weak (47.3% vs 52.6%), receivables were low (8.3% vs 9.8%), as was total debt (14.8% vs 16.6%). Hospital equity was much better than average (71.1% vs 60.0%). Miriam's 2007 (percent composition) P&L Statement was superior to the statewide composite. Other operating and non-operating revenue were slightly stronger (13.3% vs 12.5%), personnel expenses were less (48.8% vs 58.1%), as were capital expenses (3.6% vs 4.5%). Miriam had a net Medicaid DSH loss of -0.2% compared to a statewide gain of 1.1%, however, its net income was substiantially better than average (5.1% vs 3.3%).

Miriam ranked #4 in overall **profitability**. It had the 4th best total profitability (4.1%, ranked #4), and the 3rd highest operating profits (2.6%, ranked #3). *Return on Assets* was very strong (3.8%, ranked #3), and the net worth increased 80% from 2003-2007, the 3rd largest increase in the state (ranked #3).

Miriam had the 3rd strongest **capital structure** in the state, with average financial leverage (48%, ranked #7), and the 5th lowest capital-related fixed costs (3.7%, ranked #5). The hospital had the 2nd highest *Debt Service Coverage* (6.9, ranked #2), but an older physical plant (13.5 years in 2007, ranked #9).



Miriam ranked #4 in overall **liquidity**. Even though its working capital was weak (1.41, ranked #9), and its cash balances were below average (23 days, ranked #8), it managed its receivables effectively (40 days, ranked #5). Miriam was also prompt at paying its obligations (50 days, ranked #4).

G. Newport:

Newport Health Care Corporation & affiliates (Newport Hospital, Newport Hospital Foundation, Inc., NHCC Medical Associates, Inc., and Newport Health Property Management, Inc.), collectively known as the hospital or Newport, includes a 129 bed non-profit general acutecare hospital (and ancillary support organizations). Newport is a controlled affiliate of the Lifespan Corporation

Newport was the strongest hospital in the state (ranked #1 out of 13), with a RI market share of 3.9% (based on 2007 patient revenue).

	Newport Perce	nt Con	npositi	ion Table	es
		2006 %s	2007 %s	Change in Percentage Points	2007 State- wide
	BAL	ANCE S	HEET		
	Patient Receivables	3.2%	2.8%	-0.4%	9.8%
TS	Investments	70.6%	72.2%	1.6%	52.6%
SE	Net Fixed Assets	23.7%	20.9%	-2.8%	33.1%
AS	Other Assets	2.5%	4.1%	1.6%	4.4%
	Total Assets	100%	100%		100%
ES	Line of Credit	0.0%	0.0%	0.0%	0.3%
ᄩ	Long-Term Debt	10.8%	9.0%	-1.8%	16.3%
LIABIL	Other Liabilities	4.6%	3.8%	-0.8%	23.4%
	Net Worth	84.6%	87.2%	2.6%	60.0%
	P&L	STATE	MENT		
	Patient Revenue	84.2%	78.0%	-6.2%	86.4%
REVENUE	Net Medicaid DSH ¹	1.1%	1.0%	-0.1%	1.1%
闸	Other Operating Rev.	3.3%	3.3%	0.0%	9.9%
Æ	Net Non-Oper. Rev.	11.4%	17.7%	6.3%	2.6%
	Total Rev. & Gains	100%	100%		100%
ES	Wages & Benefits	49.4%	45.5%	-3.9%	58.1%
S	Interest & Deprec.	7.0%	6.3%	-0.6%	4.5%
닖	Bad Debt	5.1%	5.4%	0.3%	5.5%
X	Other Expenses	27.7%	26.3%	-1.4%	28.6%
	Net Income	10.8%	16.5%	5.6%	3.3%

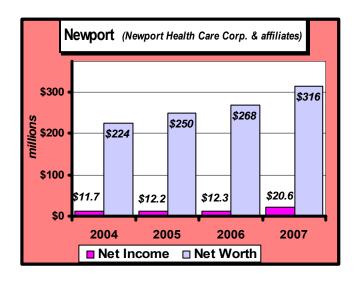
¹ net of hospital license fees

Newport's 2007 (percent composition) **Balance Sheet** was exceptional. Investments were considerable (72.2% vs 52.6%), receivables were nominal (2.8% vs 9.8%), and long-term debt was very favorable (9.0% vs 16.3%). The hospital's net worth was the 2nd best in the state (87.2% vs 60.0%). Newport's 2007 (percent composition) **P&L Statement** was also strong. Other operating and non-operating revenue were superior (21.0% vs 12.5%), and personnel expenses were reasonable (45.5% vs 58.1%). Even though the hospital's capital expenses

were high (6.3% vs 4.5%), its net income was the best in the state (16.5% vs 3.3%).

Newport ranked #1 in overall **profitability**. Its *Total Margin* and *Return on Assets* (15.0% and 4.7%, respectively) were the highest of all hospitals (ranked #1), even though operating profitability was weak (-0.6%, ranked #8). Newport's net worth increased 54% from 2003-2007, ranking it #5.

Newport had the 4th strongest **capital structure** in the state. It had fairly low financial leverage (45%, ranked #5), but the 3rd highest capital expenses (7.5%, ranked #11). Newport had the highest *Debt Service Coverage* (7.2, ranked #1), and an average *Age of Plant* (11.6 years in 2007, ranked #6).



Newport ranked #2 in overall **liquidity**. Its working capital was the 2nd strongest in the state (2.40, ranked #2), and its cash balance was better than average (35 days, ranked #5). Newport had the 3rd shortest collections period (37 days, ranked #3), and it settled its bills faster than other hospitals (39 days, ranked #1).

H. Rhode Island Hospital:

Rhode Island Hospital & affiliates (RIH Ventures, and Hospital Properties, Inc.), is a 719 bed non-profit general acute-care hospital affiliated with the Medical School of Brown University. RIH is a controlled affiliate of the Lifespan Corporation.

RIH ranked #5 (out of 13) in the state for overall financial performance, and it had a RI market share of 31.3% (based on 2007 patient revenue).

RIH Percent Composition Tables										
		2006 %s	2007 %s	Change in Percentage Points	2007 State- wide					
BALANCE SHEET										
	Patient Receivables Investments	9.4% 49.6%	9.1% 50.6%	-0.2% 1.1%	9.8% 52.6%					
ASSE	Net Fixed Assets Other Assets	38.1% 3.0%	37.3% 2.9%	-0.8% 0.0%	33.1% 4.4%					
LIABILITIES	Total Assets Line of Credit Long-Term Debt Other Liabilities Net Worth	100% 0.0% 20.3% 16.5% 63.2%	100% 0.0% 17.7% 16.1% 66.1%	0.0% -2.5% -0.4% 2.9%	100% 0.3% 16.3% 23.4% 60.0%					
Ħ		STATE		2.9 /0	00.0 /8					
REVENUE	Patient Revenue Net Medicaid DSH ¹ Other Operating Rev. Net Non-Oper. Rev. Total Rev. & Gains	85.9% 1.7% 12.4% -0.1% 100%	84.7% 1.6% 11.9% 1.9% 100%	-1.3% -0.1% -0.5% 1.9%	86.4% 1.1% 9.9% 2.6%					
EXPENSES	Wages & Benefits Interest & Deprec. Bad Debt Other Expenses	51.3% 4.6% 6.8% 33.3%	51.4% 4.4% 6.1% 32.3%	0.1% -0.2% -0.7% -1.0%	58.1% 4.5% 5.5% 28.6%					
	Net Income	4.0%	5.8%	1.8%	3.3%					

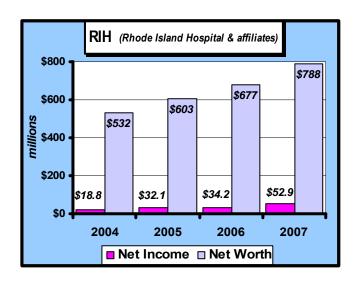
¹ net of hospital license fees

RIH's 2007 (percent composition) **Balance Sheet** approximated the state composite in many respects. Investments were similar (50.6% vs 52.6%), as were receivables (9.1% vs 9.8%). Total debt, however, was slightly higher (17.7% vs 16.6%), but equity was stronger (66.1% vs 60.0%). RIH's 2007 (percent composition) **P&L Statement** was more favorable than its Balance Sheet. Other operating and non-operating revenue were stronger (13.8% vs 12.5%), net Medicaid DSH was superior (1.6% vs 1.1%), and personnel expenses were lower (51.4% vs 58.1%). Even though RIH incurred more bad debt (6.1% vs 5.5), its

net income was substiantially better than average (5.8% vs 3.3%).

RIH had the 3rd highest overall **profitability** in the state. It had the 3rd best total profitability (4.5%, ranked #3), and the 2nd best operating profitability (3.5%, ranked #2). Its *Return on Assets* was the 4th highest (3.6%, ranked #4), and its net worth posted the 4th largest increase from 2003-2007 (+70%, ranked #4).

RIH ranked #5 in overall **capital structure**. It had average in financial leverage (51%, ranked #8), but its capital-related fixed costs were relatively expensive (4.8%, ranked #9). The hospital had the 3rd highest *Debt Service Coverage* (5.9, ranked #3), but its facility was the 3rd oldest in the state (14.5 years in 2007, ranked #11).



RIH ranked #5 in overall **liquidity**. Its working capital was strong (1.69, ranked #4), but its cash reserves were weak (16 days, ranked #10). RIH's collections period was average (47 days, ranked #7), but its payment period was very short (43 days, ranked #2). In 2007, the hospital's timing of cash-flow favored the payment side, with invoices paid before bills were collected (40 vs 49 days, respectively).

I. Roger William:

Roger Williams Medical Center, Inc. & affiliates (Roger Williams Hospital, Roger Williams Realty Corporation, Roger Williams Medical Center Physicians Office Building, Inc., Rosebank Corporation, Elmhurst Health Associates, Inc., Elmhurst Extended Care Facilities, Inc., and Roger Williams Medical Associates, Inc.), collectively known as the hospital or RWMC, includes a 220 bed non-profit general acute-care hospital affiliated with the Boston University School of Medicine (and other ancillary support organizations).

RWMC ranked #7 (out of 13) in the state for overall financial performance, and it had a RI market share of 6.0% (based on 2007 patient revenue).

	RWMC Percent Composition Tables								
		2006 %s	2007 %s	Change in Percentage Points	2007 State- wide				
BALANCE SHEET									
	Patient Receivables	14.8%	13.8%	-0.9%	9.8%				
Z	Investments	38.7%	38.1%	-0.6%	52.6%				
SE	Net Fixed Assets	42.0%	38.5%	-3.4%	33.1%				
AS	Other Assets	4.5%	9.5%	5.0%	4.4%				
	Total Assets	100%	100%		100%				
ES	Line of Credit	0.0%	0.0%	0.0%	0.3%				
ΙĘ	Long-Term Debt	26.1%	25.5%	-0.6%	16.3%				
LIABII	Other Liabilities	37.4%	37.9%	0.6%	23.4%				
	Net Worth	36.5%	36.6%	0.1%	60.0%				
	P&L	STATE	MENT						
Ī	Patient Revenue	89.1%	88.7%	-0.4%	86.4%				
REVENUE	Net Medicaid DSH ¹	2.0%	1.9%	-0.1%	1.1%				
巵	Other Operating Rev.	9.2%	8.4%	-0.8%	9.9%				
Æ	Net Non-Oper. Rev.	-0.3%	1.0%	1.3%	2.6%				
	Total Rev. & Gains	100%	100%		100%				
ES	Wages & Benefits	51.5%	52.6%	1.1%	58.1%				
SS	Interest & Deprec.	4.8%	4.7%	-0.1%	4.5%				
EXPENS	Bad Debt	4.8%	5.4%	0.7%	5.5%				
EX	Other Expenses	39.9%	36.1%	-3.8%	28.6%				
	Net Income	-1.1%	1.1%	2.2%	3.3%				

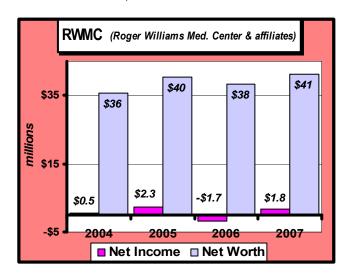
¹ net of hospital license fees

RWMC's 2007 (percent composition) **Balance Sheet** was a little weak. Investments were modest (38.1% vs 52.6%), receivables were high (13.8% vs 9.8%), total debt was excessive (25.5% vs 16.6%), and equity was low (36.6% vs 60.0%). RWMC's 2007 (percent composition) **P&L Statement** was slightly better than its Balance Sheet. Other operating and non-

operating revenue were low (9.4% vs 12.5%), but net Medicaid DSH payments were better than average (1.9% vs 1.1%), and payroll expenses were less (52.6% vs 58.1%). Net Income, however, was below the state comparable (1.1% vs 3.3%).

RWMC ranked #8 in overall **profitability**. The *Total Margin* (0.5%) and *Return on Assets* (0.7%) both ranked #8. Operating profitability was a slight loss (-0.5%) even though it ranked somewhat higher (#7), and the 2003-2007 growth in net worth (+28%), ranked #9.

RWMC ranked #8 in capital **structure**. It had the 3rd highest leverage (66%, ranked #11), but its capital expenses were more reasonable (4.7%, ranked #8). The hospital's debt capacity was average (2.3, ranked #7), and its facility was the youngest in the state (9.0 years in 2007, ranked #1).



RWMC ranked #10 in **liquidity**. It had negative working capital (*Current Ratio* of 0.98, ranked #10), but its cash balance was stronger (32 days, ranked #6). RWMC had a favorable collections period of 39 days (ranked #4), but it took much longer to settle its obligations (81 days, ranked #10).

J. South County:

South County Hospital Healthcare System Endowment & affiliate (South County Hospital Healthcare System & affiliates (South County Health Care Corporation, Silver Spring Health Care Management, and VNS HomeCare, Inc.)), collectively known as the hospital or South County, includes a 100 bed non-profit general acute-care hospital (and other ancillary support organizations).

South County ranked #9 (out of 13) in overall financial performance, and it had a RI market share of 3.4% (based on 2007 patient revenue).

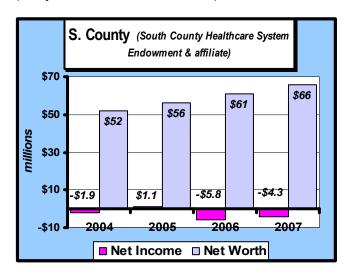
S. County Percent Composition Tables										
		2006 %s	2007 %s	Change in Percentage Points	2007 State- wide					
BALANCE SHEET										
SETS	Patient Receivables Investments Net Fixed Assets	9.1% 50.3% 32.9%	7.0% 47.1% 38.5%	-2.1% -3.2% 5.7%	9.8% 52.6% 33.1%					
	Other Assets Total Assets	7.7% 100%	7.4% 100%	-0.3%	4.4%					
LIABILITIES	Line of Credit Long-Term Debt	0.0% 46.1% 11.5% 42.5%	0.0% 44.9% 14.2% 40.9%	0.0% -1.2% 2.7% -1.6%	0.3% 16.3% 23.4% 60.0%					
	P&L	STATE	MENT							
REVENUE	Patient Revenue Net Medicaid DSH ¹ Other Operating Rev. Net Non-Oper. Rev.	90.9% 0.0% 12.7% -3.7%	85.6% -0.4% 12.7% 2.0%	-5.3% -0.4% 0.0% 5.7%	86.4% 1.1% 9.9% 2.6%					
EXPENSES	Total Rev. & Gains Wages & Benefits Interest & Deprec. Bad Debt Other Expenses	100% 55.5% 9.7% 4.9% 36.5%	100% 53.3% 9.2% 6.4% 35.4%	 -2.2% -0.5% 1.5% -1.1%	100% 58.1% 4.5% 5.5% 28.6%					
	Net Income	-6.5%	-4.3%	2.2%	3.3%					

net of hospital license fees

South County's 2007 (percent composition) **Balance Sheet** reflected its weak finances. Investments were below average (47.1% vs 52.6%), total debt was excessive (44.9% vs 16.6%), and net assets were lacking (40.9% vs 60.0%). South County's 2007 (percent composition) **P&L Statement** was also problematic. Capital expenses were disproportionately high (9.2% vs 4.5%), bad debt was unfavorable (6.4% vs 5.5%), net Medicaid DSH was a loss (-0.4% vs 1.1%), and net income was alarming (-4.3% vs 3.3%).

South County's overall **profitability** was the 3rd weakest in the state (ranked #11). Its total profitability (–3.6%) ranked #13, and Return on Assets (-2.3%) ranked #12. South County's operating profitability (-3.0%) ranked relatively higher at #11. The hospital posted below average growth in its net worth (+34%, ranked #8).

South County had the weakest **capital structure** in the state (ranked #13). It had the highest financial leverage (119%, ranked #13), and the highest capital-related fixed costs (8.9%, ranked #13). South County's *Debt Service Coverage* was also meager (1.0, ranked #11), but it had the 2nd youngest facility in the state (9.4 years in 2007, ranked #2).



South County had the strongest **liquidity** of all hospitals (ranked #1). It had the strongest current account balances (2.96, ranked #1), and considerable cash reserves (120 days, ranked #1). The hospital had slower than average collections (52 days, ranked #9), but a better than average payment period (67 days, ranked #6).

K. St. Joseph:

St. Joseph Health Services of Rhode Island is a 359 bed non-profit general acute-care Hospital.

St. Joseph ranked #8 (out of 13) in the state for overall financial performance, and it had a RI market share of 6.7% (based on 2007 patient revenue).

St. Joseph Percent Composition Tables										
		2006 2007 %s %s		Change in Percentage Points	2007 State- wide					
BALANCE SHEET										
SSETS	Patient Receivables Investments Net Fixed Assets	21.5% 35.1% 38.4%	22.8% 30.0% 42.6%	1.3% -5.1% 4.2%	9.8% 52.6% 33.1%					
¥	C tiller 7 toocto	5.0%	4.6%	-0.4%	4.4%					
LIABILITIES	Total Assets Line of Credit Long-Term Debt Other Liabilities Net Worth	100% 0.0% 21.9% 40.6% 37.5%	100% 0.0% 23.8% 41.2% 35.0%	0.0% 1.9% 0.7% -2.5%	100% 0.3% 16.3% 23.4% 60.0%					
	P&L	STATE	MENT							
REVENUE	Patient Revenue Net Medicaid DSH ¹ Other Operating Rev. Net Non-Oper. Rev.	94.0% 2.1% 3.9% 0.0%	94.6% 1.7% 3.7% 0.0%	0.6% -0.4% -0.2% 0.0%	86.4% 1.1% 9.9% 2.6%					
_	Total Rev. & Gains	100%	100%		100%					
EXPENSES	Wages & Benefits Interest & Deprec. Bad Debt Other Expenses	59.2% 3.6% 5.6% 31.9%	61.4% 4.0% 5.3% 30.7%	2.3% 0.4% -0.4% -1.2%	58.1% 4.5% 5.5% 28.6%					
	Net Income	-0.3%	-1.4%	-1.1%	3.3%					

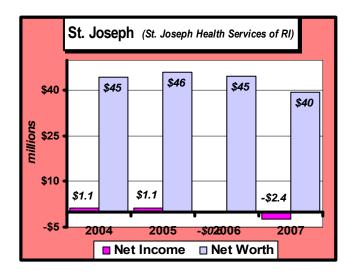
net of hospital license fees

St. Joseph's 2007 (percent composition) **Balance Sheet** was fairly weak. Patient receivables were excessive (22.8% vs 9.8%), investments were poor (30.0% vs 52.6%), total debt was disproportionately high (23.8% vs 16.6%), and net assets were meager (35.0% vs 60.0%). St. Joseph's 2007 (percent composition) **P&L Statement** was also marginal. Other operating and non-operating revenue were nominal (3.7% vs 12.5%), and net income was lacking (-1.4% vs 3.3%). On the plus side, however, were healthy net Medicaid DSH payments (1.7% vs 1.1%), and capital expenses favorably below the state comparable (4.0% vs 4.5%).

St. Joseph ranked #9 in overall **profitability**. Its operating profitability ranked #6 (-0.4%), but its bottom-line profitability (also -0.4%) and *Re-*

turn on Assets (-0.7%) both ranked lower at #9. St. Joseph was the only hospital in the state to report no non-operating income or gains over the period, so its *Total Margins* and *Operating Margins* were identical. The hospital's 2003-2007 change in net worth was problematic (-6%, ranked #11).

St. Joseph ranked #9 in **capital structure**. It had fairly high financial leverage (57%, ranked #9), but its capital expenses were reasonable (3.6%, ranked #4). St. Joseph's debt capacity was low (1.9, ranked #8), and its facility was the 4th oldest in the state in 2007 (14.1 years in 2007, ranked #10).



St. Joseph ranked #8 in **liquidity**. Its current accounts were acceptable (1.60, ranked #5), and its cash balance was healthy (59 days, ranked #3). However, the hospital's collections were slow (52 days, ranked #10), and its payment period was longer than average (77 days, ranked #8).

L. Westerly:

The Westerly Hospital & affiliate (The Westerly Hospital Foundation), is a 125 bed non-profit general acute-care hospital.

Westerly was the 2nd weakest hospital in the state (ranked #12, out of 13), with a RI market share of 2.8% (based on 2007 patient revenue).

Westerly Percent Composition Tables									
	2006 2007 Change in Percentage Points								
BALANCE SHEET									
	Patient Receivables	10.1%	9.5%	-0.6%	9.8%				
TS	Investments	38.4%	40.6%	2.3%	52.6%				
SS	Net Fixed Assets	47.3%	45.5%	-1.8%	33.1%				
AS	Other Assets	4.3%	4.4%	0.2%	4.4%				
	Total Assets	100%	100%		100%				
ES	Line of Credit	4.8%	5.1%	0.4%	0.3%				
	Long-Term Debt	21.9%	20.9%	-1.0%	16.3%				
LIABILIT	Other Liabilities	17.5%	19.6%	2.1%	23.4%				
∄	Net Worth	55.8%	54.3%	-1.5%	60.0%				
	P&L	STATE	MENT						
	Patient Revenue	93.1%	92.3%	-0.8%	86.4%				
I≌	Net Medicaid DSH ¹	0.5%	0.4%	0.0%	1.1%				
REVENUE	Other Operating Rev.	1.8%	1.6%	-0.2%	9.9%				
RE	Net Non-Oper. Rev.	4.6%	5.7%	1.0%	2.6%				
	Total Rev. & Gains	100%	100%		100%				
ES	Wages & Benefits	59.1%	59.2%	0.1%	58.1%				
S	Interest & Deprec.	7.8%	7.7%	-0.1%	4.5%				
EXPENS	Bad Debt	6.4%	6.2%	-0.2%	5.5%				
EX	Other Expenses	28.8%	29.2%	0.4%	28.6%				
	Net Income	-2.1%	-2.3%	-0.2%	3.3%				

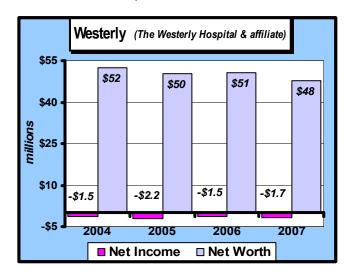
¹ net of hospital license fees

Westerly's 2007 (percent composition) **Balance Sheet** reflected its problematic finances. Investments were weak (40.6% vs 52.6%), total debt (including credit) was burdensome (26.0% vs 16.6%), and net worth was poor (54.3% vs 60.0%). Westerly's 2007 (percent composition) **P&L Statement** was also marginal. Other operating and non-operating revenue were lacking (7.3% vs 12.5%), bad debt was high (6.2% vs 5.5%), and the net income was troublesome (-2.3% vs 3.3%).

Westerly's overall **profitability** was the 2nd worst in the state (ranked #12). Its operating profitability was the lowest (-7.4%, ranked #13), but its *Total Margin* and *Return on Assets* were slightly better (-2.5% and -1.9%, respectively

ranked #11). Westerly had the 2nd lowest 2003-2007 decline in net worth (–7%, ranked #12).

Westerly had the 3rd weakest **capital structure** in the state (ranked #11). It had lower than average financial leverage (45%, ranked #6), but high capital expenses (7.6%, ranked #12). The hospital's debt capacity was weak (1.4, ranked #10), and its facility was old (14.6 years in 2007, ranked #12).



Westerly had the 3rd weakest **liquidity** in the state (ranked #11). It had negative working capital (*Current Ratio* of 0.76, ranked #13), and its cash reserves were meager (6 days, ranked #11). The hospital did an effective job at managing its receivables (43 days, ranked #6), but its payment period was fairly long (77 days, ranked #9).

M. Women & Infants:

Women & Infants Corporation & affiliates (Women & Infants Hospital of Rhode Island, Women & Infants Development Foundation, Palomar Group, Inc., W & I Indemnity, Ltd., WIH Faculty Physicians, Inc., and Women & Infants Ancillary Services, LLC), collectively known as the hospital or W&I, includes a 137 bed non-profit general acute-care hospital for women and infants (and other ancillary support organizations). W&I is a teaching affiliate of the Medical School of Brown University, and a controlled affiliate of the Care New England Health System.

W&I was the 4th strongest hospital in the state for overall financial performance (ranked #4 out of 13), and it had a RI market share of 10.8% (based on 2007 patient revenue).

W&I Percent Composition Tables								
		2006 %s	2007 %s	Change in Percentage Points	2007 State- wide			
	BAL	ANCE S	HEET					
	Patient Receivables	12.8%	10.2%	-2.6%	9.8%			
SETS	Investments	49.2%	55.0%	5.7%	52.6%			
SE	Net Fixed Assets	30.6%	28.0%	-2.5%	33.1%			
AS	Other Assets	7.4%	6.8%	-0.6%	4.4%			
	Total Assets	100%	100%		100%			
ES	Line of Credit	0.0%	0.0%	0.0%	0.3%			
틸	Long-Term Debt	12.2%	10.2%	-2.1%	16.3%			
LIABII	Other Liabilities	34.9%	36.1%	1.3%	23.4%			
≟	Net Worth	52.9%	53.7%	0.8%	60.0%			
	P&L	STATE	MENT					
Ī	Patient Revenue	82.0%	80.0%	-2.0%	86.4%			
REVENUE	Net Medicaid DSH ¹	1.3%	1.4%	0.0%	1.1%			
恒	Other Operating Rev.	16.0%	16.9%	1.0%	9.9%			
Æ	Net Non-Oper. Rev.	0.7%	1.7%	1.0%	2.6%			
	Total Rev. & Gains	100%	100%		100%			
ES	Wages & Benefits	63.9%	62.0%	-1.9%	58.1%			
EXPENSES	Interest & Deprec.	4.4%	4.1%	-0.2%	4.5%			
H	Bad Debt	1.7%	2.1%	0.4%	5.5%			
Ä	Other Expenses	27.9%	27.3%	-0.6%	28.6%			
	Net Income	2.2%	4.4%	2.3%	3.3%			

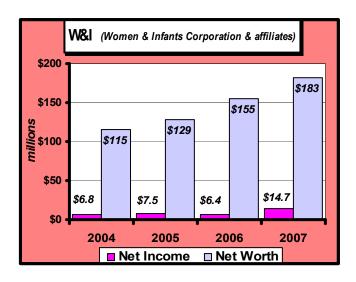
net of hospital license fees

W&I's 2007 (percent composition) **Balance Sheet** reflected its favorable finances. Even though net worth were weak (53.7% vs 60.0%), receivables were low (8.3% vs 9.8%), as was total debt (14.8% vs 16.6%). W&I's 2007 (percent composition) **P&L Statement** was also

healthy. Other operating and non-operating revenue were stronger (18.6% vs 12.5%), net Medicaid DSH payments were greater (1.4% vs 1.1%), bad debt was substiantially less (2.1% vs 5.5%), and net income was better (4.4% vs 3.3%).

W&I ranked #5 in overall **profitability**. It had the 5th highest total profitability (3.2%), and *Return on Assets* (also 3.2%). The hospital had the 4th best operating profitability (1.9%, ranked #4), and it posted the 2nd largest 2003-2007 increase in net worth (+82%, ranked #2).

W&I had the 2nd strongest **capital structure** in the state. It had low financial leverage (40%, ranked #3), and moderate capital expenses (4.2%, ranked #6). The hospital had strong *Debt Service Coverage* (5.8, ranked #4), and its facility was relatively young (10.9 years in 2007, ranked #5).



W&I ranked #6 in overall **liquidity**. Its current accounts were average (1.56, ranked #6), but its cash balance was stronger (43 days, ranked #4). W&I's collections period was longer than average (49 days, ranked #8), as was its payment period (69 days, ranked #7).

APPENDIX A: Methodology & Data

For each facility, 12 measures were calculated and grouped into three categories: **profitability** (the generation of net income and net worth), **capital structure** (financial leverage and debt capacity), and **liquidity** (the timing of cash-flow and ability to meet one's obligations). Tables A1, A2 and A3 provide the raw data for calculations of the individual measures. Statewide values were then compared to the corresponding Northeastern⁹ median values to evaluate hospital performance locally.

Any number of financial ratios may be calculated, however, three criteria were used in selecting the 12 individual measures here. First, they had to be derived from audited data. Second, comparable benchmarks had to be available. Third, they had to be widely used and recognized both within and out of the industry as key indicators of financial performance. Each one had to provide the maximum amount of utility. For example, *Times Interest Earned* and *Debt Service Coverage* are two (out of 10⁺) capital structure ratios. They roughly measure the same thing (i.e., debt repayment ability) albeit with some important differences. *Debt Service Coverage* considers the entire debt obligation (i.e., interest plus principal) and all available cash (i.e., cash-flow rather than accounting income). In addition, *Debt Service Coverage* is the primary capital structure ratio used by bond rating agencies to assess hospital creditworthiness. Therefore, for these reasons it was chosen over *Times Interest Earned*, for inclusion in this report.

Individual hospital performance was assessed by developing three indices corresponding to the three ratio categories (i.e., profitability, capital structure, and liquidity). To accomplish this, the individual ratios were standardized, 10 a weighted average for all ratios (and all four years) in each category was calculated, and these weighted averages were again standardized to yield a performance index. Higher values on an index always indicate superior performance. To interpret any of the standardized indices, one concludes that the index value is so many standard deviations from the state mean (i.e., the average for all the hospitals). For example, Landmark's profitability index is -2.34, or over 2 standard deviations below the state average. In a 'normal' distribution, approximately 67% of the population is within +/-1 standard deviations, and 95% is within +/-2 standard deviations (of the mean). This puts Landmark at the bottom of the state in this measure, and examination of all other hospital profitability indices bears this out. In those cases where the desired trend for an individual ratio is for lower values (i.e., Fixed Asset Financing, Capital Expenses, Age of Plant, Days in Accounts Receivable, and Average Payment Period), the inverse of the standardized values were taken. 11 Relative weights given to yearly performance were 10% for 2004, 20% for 2005, 30% for 2006, and 40% for 2007. Therefore, and logically, a hospital's most recent performance is considered more important than how it operated in prior years.

Weights given to the individual **profitability** measures were 30% for *Total Margin*, 30% for *Return on Assets, 25*% for *Changes in Net Worth*, and 15% for *Operating Margins*. The *Total Margin,* and *Return on Assets* are the primary measures of ongoing profitability and were rated equal and most heavily because they reflect bottom-line profitability expressed either as a percent of revenues or assets. The *Changes in Net Worth* was rated less important because it may be influenced by outside factors beyond the hospital's control (e.g., a financial market downturn, a worsening economy affecting charitable contributions, etc.). The *Operating Margin* was rated least important because it is derivative of the *Total Margin* and may also be arbitrarily affected by the addition of Board-Restricted funds and by changes in reserves against third-party settlements.

Weights given to the individual **capital structure** ratios were 35% for *Debt Service Coverage*, 25% for *Fixed Asset Financing*, 25% for *Capital Expenses*, and 15% for *Age of Plant*. *Debt Service Coverage* was rated most important because it calculates the ability to repay the current debt obligation from cash-flow, and is a primary determinant of debt capacity. *Fixed Asset Financing* and *Capital Expenses* were rated lower but equal in importance because, in the case of *Fixed Asset Financing*,

it measures the relative amount, but not the actual cost of the debt, while the *Capital Expenses* measure the burden of the costs of the debt, but not repayment ability. *Age of Plant* was rated least important because it provides a gauge of the accounting age of the fixed assets and the potential timing of capital needs. However, hospitals vary in their upkeep of facility and equipment, and these assets can still have utility even after their useful lives are exceeded.

Weights given to the **liquidity** measures were 30% for *Days Cash on Hand*, 30% for *Days in Accounts Receivable*, 20% for *Average Payment Period*, and 20% for *Current Ratios*. The *Days Cash on Hand* and *Days in Accounts Receivable*, were rated equal and most important. *Days Cash on Hand* is a stringent measure of liquidity because it only considers the most marketable assets in its calculations (i.e., cash & short-term investments), and *Days in Accounts Receivable* reflects how effectively the receivables are managed to generate working capital. The *Average Payment Period* and *Current Ratios* were rated lower but equal in importance because, in the case of the *Average Payment Period*, extending payables is not always a sign of cash-flow problems, and may not be detrimental as long as good vendor relations are maintained. Likewise, the *Current Ratio* is a conceptual measure of liquidity at a single point in time that may be improved with the reallocation of (usually) board-designated investments into shorter positions.

To determine <u>overall</u> financial performance, the indices in the three ratio categories were weighted 45% for **profitability**, 30% for **capital structure**, and 25% for **liquidity**. Those weighted averages were then standardized to arrive at a single overall performance index for each hospital, with higher values preferred. **Profitability** was rated most important (45%) because all other measures pale in comparison. Hospitals that consistently lose money and value will not survive. It doesn't matter how low the debt burden, or how strong the liquidity, an unprofitable hospital is fated for failure. **Capital structure** was rated second in importance (30%) because it reflects non-recourse, long-term investment in assets that essentially determine how well a hospital can compete in the market-place. Not only must the hospital facility be efficient and attractive, but current technologies must also be made available to patients. **Liquidity** was rated last in importance (25%), because it deals with current (under one year) obligations, none of which are likely to severely compromise the hospital in the long-term. Further, liquidity may be improved through the reallocation of assets into current positions.

APPENDIX A1: Raw Data									
	ALL	RI HOSPIT	ALS (in Mil	lions)	BRADLEY (in Thousands)				
	2004	2005	2006	2007	2004	2005	2006	2007	
1 Cash & Short-Term Investments	\$175.03	\$216.17	\$211.91	\$229.18	\$1,806	\$2,655	\$2,545	\$3,954	
2 Net Patient Receivables	\$293.28	\$290.23	\$332.51	\$335.02	\$6,700	\$7,200	\$6,445	\$8,635	
3 Current Assets	\$570.61	\$613.43	\$658.09	\$688.14	\$9,686	\$10,867	\$9,553	\$13,310	
4 Net Fixed Assets	\$912.98	\$984.66	\$1,049.29	\$1,130.51	\$11,779	\$12,474	\$14,401	\$15,277	
5 Accumulated Depreciation	\$1,084.24	\$1,165.52	\$1,258.17	\$1,288.29	\$12,768	\$13,890	\$15,028	\$14,340	
6 Total Assets	\$2,651.89	\$2,894.89	\$3,106.95	\$3,411.33	\$62,229	\$65,764	\$66,088	\$91,720	
7 Current Portion of L.T. Debt	\$22.01	\$23.73	\$25.72	\$38.23	\$0	\$0	\$0	\$0	
8 Line of Credit	\$20.09	\$7.73	\$5.65	\$11.13	\$0	\$0	\$0	\$0	
9 Current Liabilities	\$408.46	\$446.75	\$472.03	\$483.36	\$6,669	\$5,835	\$6,895	\$5,534	
10 L.T. Debt & Capital Leases	\$519.14	\$515.36	\$537.80	\$517.31	\$0	\$0	\$0	\$0	
11 Net Assets	\$1,472.21	\$1,636.83	\$1,783.37	\$2,045.18	\$50,011	\$54,925	\$56,829	\$83,705	
12 Net Patient Revenue	\$2,140.21	\$2,324.31	\$2,482.63	\$2,600.24	\$45,479	\$47,219	\$47,374	\$51,064	
13 Total Revenue	\$2,404.33	\$2,591.51	\$2,763.72	\$2,887.62	\$53,888	\$55,254	\$53,364	\$56,078	
14 Interest Expense	\$26.05	\$28.18	\$28.17	\$27.92	\$0	\$0	\$0	\$0	
15 Depreciation & Amortization	\$89.42	\$92.44	\$96.60	\$101.52	\$1,213	\$1,122	\$1,141	\$1,228	
16 Wages & Benefits	\$1,367.42	\$1,471.36	\$1,595.29	\$1,684.12	\$36,469	\$38,235	\$40,227	\$40,312	
17 Bad Debt	\$137.98	\$141.31	\$148.11	\$158.02	\$760	\$833	\$397	(\$366)	
18 Total Operating Expenses	\$2,381.06	\$2,552.40	\$2,737.08	\$2,866.00	\$50,246	\$51,832	\$52,884	\$51,069	
19 Operating Income	\$23.34	\$39.06	\$26.64	\$21.61	\$3,642	\$3,422	\$480	\$5,009	
20 Net Income	\$58.45	\$84.05	\$57.42	\$97.02	\$3,659	\$3,472	\$480	\$5,022	

		ΔΡΡΕΝΓ	DIX A2: R	aw Data					
		BUTLER (in			KENT (in Thousands)				
	2004	2005	2006	2007	2004	2005	2006	2007	
Cash & Short-Term Investments	\$13,176	\$14,269	\$14,659	\$13,931	\$4,209	\$0	\$0	\$31	
2 Net Patient Receivables	\$3,619	\$2,908	\$2,896	\$3,362	\$31,696	\$35,427	\$34,595	\$29,935	
3 Current Assets	\$21,929	\$26,343	\$23,319	\$24,154	\$43,678	\$43,693	\$43,692	\$37,654	
4 Net Fixed Assets	\$18,568	\$20,324	\$21,386	\$24,255	\$67,321	\$76,621	\$80,161	\$80,485	
5 Accumulated Depreciation	\$25,320	\$27,870	\$30,330	\$32,072	\$84,592	\$91,837	\$100,986	\$110,104	
6 Total Assets 7 Current Portion of L.T. Debt	\$62,140 \$679	\$69,744 \$895	\$68,863 \$1,006	\$76,022 \$524	\$166,678 \$2,968	\$178,621 \$3,299	\$187,258 \$3,721	\$181,710 \$2.892	
8 Line of Credit	\$0	\$0	\$1,000	\$0 \$0	\$0	\$5,112	\$9,751	\$0	
9 Current Liabilities	\$20,103	\$21,782	\$16,739	\$13,372	\$51,271	\$55,243	\$55,577	\$46,830	
10 L.T. Debt & Capital Leases	\$7,564	\$7,886	\$7,298	\$10,767	\$25,778	\$27,562	\$27,361	\$24,469	
11 Net Assets	\$32,723	\$36,278	\$38,475	\$45,085	\$79,409	\$79,198	\$82,790	\$89,213	
12 Net Patient Revenue	\$33,339	\$38,151	\$40,826	\$45,831	\$193,097	\$209,339	\$227,158	\$233,097	
13 Total Revenue	\$51,221	\$60,744	\$64,804	\$71,221	\$200,681	\$217,863	\$236,473	\$241,790	
14 Interest Expense 15 Depreciation & Amortization	\$339 \$2,034	\$414 \$2,597	\$459 \$2,677	\$485 \$2,981	\$691 \$7,132	\$1,057 \$8,564	\$1,924 \$9,190	\$1,992 \$9,224	
16 Wages & Benefits	\$38,116	\$41,579	\$46,404	\$49,608	\$119,093	\$127,912	\$134,954	\$140,620	
17 Bad Debt	\$442	\$846	\$1,277	\$1,219	\$9,974	\$10,700	\$14,522	\$17,668	
18 Total Operating Expenses	\$51,735	\$58,466	\$65,443	\$69,636	\$202,081	\$220,234	\$238,463	\$250,771	
19 Operating Income	(\$513)	\$2,278	(\$640)	\$1,585	(\$1,401)	(\$2,370)	(\$1,990)	(\$8,981)	
20 Net Income	(\$100)	\$2,705	(\$124)	\$2,338	\$179	(\$172)	(\$100)	(\$5,262)	
	LANDMARK (in Thousands)			М	EMORIAL (i	n Thousand	ds)		
	2004	2005	2006	2007	2004	2005	2006	2007	
1 Cash & Short-Term Investments	\$10,858	\$10,851	\$8,423	\$9,538	\$1,259	\$1,058	\$1,152	\$1,325	
2 Net Patient Receivables	\$9,360	\$9,937	\$11,308	\$12,424	\$31,494	\$29,457	\$30,072	\$34,638	
3 Current Assets	\$24,606	\$24,512	\$23,741	\$27,099	\$38,432	\$36,859	\$36,940	\$41,275	
4 Net Fixed Assets 5 Accumulated Depreciation	\$16,795 \$48,082	\$21,261 \$51,000	\$20,057 \$53,854	\$13,825 \$31,118	\$32,071 \$64,485	\$35,437 \$68,747	\$36,604 \$73,022	\$35,893 \$77,017	
6 Total Assets	\$46,129	\$49,444	\$47,932	\$31,116 \$44,070	\$132,843	\$131,300	\$129,481	\$138,986	
7 Current Portion of L.T. Debt	\$1,762	\$1,632	\$2,282	\$14,556	\$1,694	\$1,584	\$1,581	\$1,582	
8 Line of Credit	\$450	\$750	\$775	\$2,000	\$5,863	\$2,481	\$537	\$4,594	
9 Current Liabilities	\$18,977	\$21,184	\$25,391	\$41,951	\$27,126	\$25,666	\$24,193	\$29,539	
10 L.T. Debt & Capital Leases	\$16,218	\$18,604	\$16,314	\$2,038	\$22,191	\$20,602	\$19,025	\$17,441	
11 Net Assets 12 Net Patient Revenue	\$633	(\$505)	(\$2,418)	(\$8,950)	\$76,779	\$75,222	\$79,922	\$77,213	
13 Total Revenue	\$103,574 \$104,751	\$115,207 \$117,425	\$127,741 \$129,993	\$133,380 \$135,568	\$149,944 \$163,746	\$154,484 \$166,740	\$159,526 \$169,863	\$162,581 \$171,589	
14 Interest Expense	\$1,054	\$1,151	\$1,013	\$896	\$1,236	\$1,348	\$1,084	\$1,366	
15 Depreciation & Amortization	\$3,280	\$2,814	\$3,235	\$3,272	\$4,078	\$4,394	\$4,519	\$4,314	
16 Wages & Benefits	\$55,710	\$63,105	\$69,713	\$70,510	\$99,085	\$105,171	\$106,588	\$108,107	
17 Bad Debt	\$6,495	\$6,996	\$9,883	\$12,270	\$10,904	\$9,297	\$10,562	\$11,588	
18 Total Operating Expenses	\$104,581	\$119,047	\$134,850	\$144,183	\$164,461	\$168,299	\$172,237	\$173,516	
19 Operating Income 20 Net Income	\$170 \$684	(\$1,621)	(\$4,857)	(\$8,616) (\$8,090)	(\$715) \$1,493	(\$1,560)	(\$2,374) \$2,042	(\$1,927) \$476	
20 Net Income		(\$1,091)	(\$2,941)			\$475	\$3,013		
		MIRIAM (in				EWPORT (i			
	2004	2005	2006	2007	2004	2005	2006	2007	
1 Cash & Short-Term Investments	\$23,352	\$35,735	\$17,800	\$7,886	\$6,178	\$9,133	\$9,050	\$10,718	
2 Net Patient Receivables 3 Current Assets	\$28,154 \$58,894	\$27,731 \$69,876	\$32,271 \$56,607	\$29,111 \$45,189	\$11,008 \$26,177	\$9,719 \$26,520	\$10,253 \$26,876	\$10,151 \$23,318	
4 Net Fixed Assets	\$73,861	\$82,280	\$117,060	\$45, 169 \$146,031	\$20,177 \$79,412	\$77,272	\$75,010	\$75,578	
5 Accumulated Depreciation	\$103,808	\$111,675	\$119,615	\$122,504	\$57,234	\$62,806	\$67,474	\$73,018	
6 Total Assets	\$264,136	\$298,215	\$333,951	\$350,928	\$277,439	\$300,226	\$316,489	\$361,834	
7 Current Portion of L.T. Debt	\$1,096	\$1,157	\$1,222	\$417	\$1,580	\$1,605	\$1,630	\$1,660	
8 Line of Credit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
9 Current Liabilities	\$32,218	\$39,701	\$50,395	\$33,711	\$11,237	\$10,744	\$10,658	\$10,119	
10 L.T. Debt & Capital Leases 11 Net Assets	\$51,500 \$161,972	\$50,355 \$189,924	\$52,140 \$207,797	\$51,592 \$249,480	\$35,840 \$223,845	\$34,235 \$249,542	\$32,605 \$267,793	\$30,945 \$315,573	
12 Net Patient Revenue	\$242,344	\$189,924	\$269,651	\$249,480 \$282,809	\$223,845	\$249,542	\$267,793	\$101,709	
13 Total Revenue	\$278,886	\$303,182	\$304,314	\$317,829	\$96,273	\$101,556	\$103,563	\$101,703	
14 Interest Expense	\$3,135	\$3,083	\$2,715	\$2,452	\$1,499	\$1,603	\$1,676	\$1,625	
15 Depreciation & Amortization	\$8,044	\$7,978	\$8,057	\$9,080	\$6,054	\$6,176	\$6,211	\$6,292	
16 Wages & Benefits	\$133,801	\$140,896	\$149,726	\$154,552	\$51,469	\$53,809	\$56,059	\$56,870	
17 Bad Debt	\$14,384	\$19,492	\$15,786	\$16,444	\$5,971	\$6,384	\$5,782	\$6,706	
18 Total Operating Expenses	\$270,529	\$293,075	\$299,515	\$308,684	\$96,504	\$100,804	\$104,153	\$107,365 (\$4,475)	
19 Operating Income 20 Net Income	\$8,357 \$10,836	\$10,107 \$14,712	\$4,799 \$6,768	\$9,145 \$16,183	(\$231) \$11,749	\$753 \$12,216	(\$591) \$12,306	(\$1,475) \$20,610	
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	aw Data								
	RI		(in Thousar		ROGER WILLIAMS (in Thousands)				
	2004	2005	2006	2007	2004	2005	2006	2007	
1 Cash & Short-Term Investments	\$14,996	\$25,904	\$48,428	\$38,259	\$7.992	\$14,874	\$14,086	\$13,922	
2 Net Patient Receivables	\$83,032	\$80,603	\$100,258	\$108,944	\$17,093	\$14,528	\$15,552	\$15,614	
3 Current Assets	\$119,741	\$126,391	\$170,566	\$174,602	\$29,321	\$33,864	\$33,890	\$34,530	
4 Net Fixed Assets	\$366,132	\$398,920	\$408,169	\$443,933	\$39,041	\$41,597	\$44,175	\$43,494	
5 Accumulated Depreciation	\$384,002	\$411,521	\$439,619	\$438,261	\$38,379	\$43,790	\$49,921	\$54,124	
6 Total Assets 7 Current Portion of L.T. Debt	\$902,877 \$4,699	\$990,731 \$4,963	\$1,071,209 \$5,243	\$1,191,058 \$1,418	\$92,674 \$1,917	\$103,462 \$2,133	\$105,296 \$1,646	\$112,952 \$1,917	
8 Line of Credit	\$0	\$0	\$0,243	\$1,410	\$3,000	\$0	\$1,040	\$0	
9 Current Liabilities	\$77,793	\$88,603	\$102,404	\$93,532	\$26,379	\$33,452	\$35,807	\$36,564	
10 L.T. Debt & Capital Leases	\$211,312	\$206,386	\$211,765	\$209,822	\$27,500	\$26,081	\$25,871	\$26,882	
11 Net Assets	\$532,304	\$602,666	\$677,266	\$787,860	\$35,643	\$40,436	\$38,411	\$41,291	
12 Net Patient Revenue	\$635,822	\$702,904	\$770,439	\$809,582	\$132,324	\$139,099	\$147,353	\$154,320	
13 Total Revenue	\$726,994	\$794,343	\$876,583	\$918,618	\$146,466	\$154,152	\$161,772	\$168,278	
14 Interest Expense	\$10,341	\$11,388	\$10,950	\$9,911	\$1,861	\$1,712	\$1,673	\$1,811	
15 Depreciation & Amortization	\$28,894	\$27,833	\$28,546	\$30,326	\$5,126 \$72,047	\$5,411	\$5,935	\$6,042	
16 Wages & Benefits 17 Bad Debt	\$358,017 \$61,270	\$387,096 \$62,309	\$438,724 \$58,418	\$470,227 \$55,883	\$73,917 \$7,279	\$77,903 \$5,453	\$81,103 \$7,484	\$87,369 \$8,989	
18 Total Operating Expenses	\$717,756	\$771,341	\$841,968	\$882,764	\$1,219 \$145,574	\$5,453 \$157,250	\$163,003	\$168,151	
19 Operating Income	\$9,238	\$23,002	\$34,615	\$35,854	\$893	(\$3,099)	(\$1,231)	\$120	
20 Net Income	\$18,830	\$32,082	\$34,160	\$52,883	\$509	\$2,346	(\$1,666)	\$1,840	
	SOU	TH COUNT	Y (in Thous	ands)	ST	JOSEPH (in Thousan	ds)	
	2004	2005	2006	2007	2004	2005	2006	2007	
1 Cash & Short-Term Investments	\$25,817	\$29,510	\$25,980	\$34,291	\$21,540	\$34.013	\$30,877	\$22,253	
2 Net Patient Receivables	\$10,302	\$11.091	\$13,121	\$11,255	\$22,336	\$18,787	\$25,525	\$25,787	
3 Current Assets	\$39,107	\$43,328	\$44,121	\$50,257	\$48,209	\$58,810	\$62,826	\$53,809	
4 Net Fixed Assets	\$49,184	\$47,054	\$47,436	\$61,995	\$37,747	\$39,387	\$45,657	\$48,171	
5 Accumulated Depreciation	\$47,544	\$44,800	\$49,373	\$54,458	\$62,409	\$66,832	\$72,037	\$77,133	
6 Total Assets	\$114,340	\$118,498	\$144,210	\$160,820	\$97,578	\$113,644	\$118,865	\$113,116	
7 Current Portion of L.T. Debt	\$1,682	\$1,960	\$906	\$7,000	\$811	\$1,028	\$2,087	\$1,962	
8 Line of Credit 9 Current Liabilities	\$0 \$10,623	\$0 \$11,291	\$0 \$13,205	\$0 \$24,493	\$0 \$28,501	\$0 \$37,078	\$0 \$41,713	\$0 \$32,623	
10 L.T. Debt & Capital Leases	\$46,846	\$45,719	\$65,542	\$65,252	\$21,658	\$21,846	\$23,980	\$24,955	
11 Net Assets	\$51,972	\$56,012	\$61,241	\$65,764	\$44,547	\$46,182	\$44,588	\$39,579	
12 Net Patient Revenue	\$72,032	\$79,373	\$82,320	\$87,742	\$149,282	\$156,681	\$171,094	\$172,252	
13 Total Revenue	\$80,923	\$88,210	\$93,515	\$100,503	\$158,080	\$167,024	\$177,815	\$178,673	
14 Interest Expense	\$2,166	\$2,735	\$2,732	\$3,365	\$1,320	\$1,253	\$1,463	\$1,468	
15 Depreciation & Amortization	\$5,430	\$5,424	\$5,774	\$5,816	\$4,143	\$4,458	\$4,770	\$5,473	
16 Wages & Benefits	\$33,275	\$34,951	\$48,808	\$53,417	\$89,407	\$95,103	\$102,285	\$106,738	
17 Bad Debt	\$2,452	\$3,341	\$4,307 \$96.052	\$6,423	\$11,094	\$8,741	\$9,761	\$9,140	
18 Total Operating Expenses 19 Operating Income	\$80,676 \$247	\$87,012 \$1,197	(\$2,538)	\$106,866 (\$6,363)	\$156,958 \$1,122	\$165,892 \$1,132	\$178,365 (\$550)	\$181,075 (\$2,402)	
20 Net Income	(\$1,901)	\$1,100	(\$5,762)	(\$4,315)	\$1,122	\$1,132	(\$550)	(\$2,402)	
			in Thousand				TS (in Thou		
	2004	2005	2006	2007	2004	2005	2006	2007	
1 Cash & Short-Term Investments	\$1,179		\$693	\$1,023	\$36,126	\$25,028	\$23,130	\$47,942	
2 Net Patient Receivables	\$7,056	\$1,678 \$7,076	\$9,145	\$1,023 \$8,356	\$28,415	\$32,506	\$23,130	\$47,942 \$34,663	
3 Current Assets	\$9,865	\$11,400	\$12,398	\$11,441	\$75,381	\$70,401	\$79,651	\$100,475	
4 Net Fixed Assets	\$46,264	\$44,033	\$42,788	\$40,057	\$67,796	\$81,105	\$89,690	\$95,363	
5 Accumulated Depreciation	\$49,749	\$53,941	\$58,109	\$62,145	\$103,379	\$113,708	\$125,069	\$133,183	
6 Total Assets	\$93,221	\$93,234	\$90,528	\$88,124	\$235,557	\$258,051	\$293,425	\$340,260	
7 Current Portion of L.T. Debt	\$1,034	\$1,094	\$1,456	\$1,466	\$1,923	\$2,208	\$2,764	\$2,649	
8 Line of Credit	\$3,273	\$4,494	\$4,338	\$4,535	\$0	\$0	\$0	\$0	
9 Current Liabilities	\$14,616	\$15,697 \$17,020	\$14,773 \$49.257	\$15,234 \$16,041	\$52,362	\$51,404 \$32,600	\$50,995	\$59,826	
10 L.T. Debt & Capital Leases 11 Net Assets	\$18,135 \$52,487	\$17,920 \$50,240	\$18,357 \$50,533	\$16,941 \$47,868	\$29,860 \$115,189	\$33,600 \$128,702	\$33,149 \$155,161	\$31,999 \$182,668	
12 Net Patient Revenue	\$64,976	\$65,207	\$70,256	\$47,000 \$71,960	\$215,291	\$238,941	\$254,817	\$278,571	
13 Total Revenue	\$66,321	\$66,617	\$71,568	\$71,560 \$73,169	\$258,829	\$281,968	\$302,206	\$335,039	
14 Interest Expense	\$1,529	\$1,424	\$1,523	\$1,545	\$799	\$1,026	\$1,559	\$1,577	
15 Depreciation & Amortization	\$4,315	\$4,192	\$4,167	\$4,243	\$9,041	\$10,362	\$11,396	\$12,248	
16 Wages & Benefits	\$40,202	\$41,020	\$42,985	\$44,516	\$162,102	\$178,598	\$189,607	\$206,534	
17 Bad Debt	\$3,096	\$3,408	\$4,635	\$4,641	\$3,608	\$3,541	\$5,012	\$7,102	
18 Total Operating Expenses	\$70,862	\$71,364	\$76,476	\$79,150	\$254,407 \$4,422	\$277,887	\$298,001	\$326,141	
19 Operating Income 20 Net Income	(\$4,541) (\$1,517)	(\$4,747) (\$2,249)	(\$4,908) (\$1,530)	(\$5,981) (\$1,715)	\$4,422 \$6,778	\$4,081 \$7,475	\$4,205 \$6,386	\$8,899 \$14,695	
40 NCL	(φ1, 0 1/)	(\$\pe\243)	(ψ1,OOU)	(φ1,/IO)	Ψ0,//0	\$7,475	1 40,300	y 14,030	

Endnotes:

Spending on hospital services was \$2.6b, and RI's Gross State Product was \$46.9b in 2007; US Department of Commerce, Bureau of Economic Analysis (<u>www.bea.gov</u>)

Hospital Financial Dataset (2007), Cryan, B., RI Dept. of Health, October 6, 2008

³ 2008 Edition, Ingenix, Inc. 1-800-765-6588

The Changes in Net Worth measure is the exception, rather than use a weighted average, the 2003 to 2007 overall change in net assets is used

⁵ Changes in accounting standards may also affect net assets (see endnote ⁵)

The September 29, 2006 change in accounting standard (SFAS No. 158) recognizing overor underfunded pensions resulted in a \$8.5m net reduction in Memorial's 2007 net worth

Hospital Costs in Rhode Island (2004) ~a state by state comparison, Cryan B., RI Dept. of

Health, December 2006

- In the Northeast, Connecticut, New Hampshire, and New Jersey have lower dollar thresholds for CON review, Maine, Massachusetts, and New York have higher dollar thresholds, and Pennsylvania has no CON review. It is unknown if any of the other Northeast CON states impose a minimum equity funding requirement for CON projects.
- Northeast states include: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont
- i.e., ((individual hospital value mean of all hospitals' values) / standard deviation of all hospitals' values), standardization enables disparate information to be compared in a statistically valid fashion regardless of differences in scale
- To preserve larger comparative values as the desired trend